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Australasian

Advanced Accountancy

AN EXPOSITION FROM AN AUSTRALASIAN STANDPOINT OF THE THEORY AND PRACTICE OF ACCOUNTANCY, TOGETHER WITH THE LAW AFFECTING ACCOUNTS.

— BY —

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PREFACE TO SEVENTH EDITION.

In this Edition numerous alterations necessitated by the passing of amended Company legislation in Tasmania (Act No. 66, 1920, Tas.), have been made and an additional chapter has been provided dealing with Federal Income Tax, incorporating the provisions of the 1921 Amending Act.

The writer is indebted to Mr. H. W. Buckley, A.I.C.A, of Melbourne, for the great bulk of the matter appearing in Chapter XXXV., and also for the preparation of the Schedule showing the effect of the various amendments of the Federal Income Tax Act from its inception right up to date.

It is thought that this comparative and progressive Schedule will prove of great value to the practitioner.

ALBERT E. BARTON.

Woodstock Chambers,
88 Pitt Street. Sydney.

June, 1922.

PREFACE TO FIRST EDITION.

Although there is now available to the Practitioner and the Student of accounts a number of English text books covering the more advanced stages of Accountancy, it is thought that the need of a work dealing with this portion of the subject from an Australasian standpoint has been experienced for some time past. The laws of the Commonwealth and New Zealand are, of course, based generally upon the corresponding English Acts, but there are, unfortunately, numbers of differences in matters of procedure, and these tend to discount somewhat the value of the text books referred to for local use.

In the preparation of a work applicable throughout Australasia the fact that the commercial law in no two States corresponds presents considerable difficulty, but it is thought that the method of treatment adopted herein, whilst providing for the Practitioner in each State information which he may frequently require as to the law affecting accounts in other States, will not tend to confuse an intending Examinee.

This book has been prepared mainly for the Student of accounts. Statutory forms, which can be obtained from any law stationer for a few pence, have been omitted, and the space so made available has been utilised for the purpose of supplying full explanations of principles and procedure.

The writer has had a number of years' experience as a Public Accountant and as an Accountancy Coach, and this should ensure that the work is not only practical, but that it presents the information in the manner most suitable to the requirements of the average student. A knowledge of Double Entry Bookkeeping on the part of the reader is assumed, but if this is lacking a study of an Australasian text book on Bookkeeping, such as "Twentieth Century Commerce and Bookkeeping," is recommended.

The writer desires to express his indebtedness to numerous professional friends both for advice and for supplying facilities for procuring a good deal of the matter contained herein.

ALBERT E. BARTON.

"Challis House,"
Sydney,
September, 1912.

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CHAPTER I.

GENERAL REVIEW OF BOOKKEEPING.

Whilst, as pointed out in the Preface, it is not the intention of the writer to encroach upon the province of a work on double-entry Bookkeeping, it might be as well, before commencing to discuss the more advanced stages of Accountancy, to come to an understanding relating to the principles underlying the preparation of the final accounts from a set of books, and to touch common ground with regard to the use and application of the various bookkeeping terms and of the nomenclature and classification of accounts. A satisfactory basis is then established from which to commence the discussion of the more advanced work.

Classification of Ledger Accounts.

Ledger Accounts are divided primarily into two classes, Personal and Impersonal. Personal Accounts are those representing the accounts of persons with whom a business has financial dealings, and these may again be divided into the accounts of Debtors and Creditors. The accounts of the former are usually kept in one or more Sales or Customers Ledgers, and the latter in a Bought or Merchants Ledger.

The Impersonal Accounts are those kept by a business in order to enable it to record and classify suitably its own side of every transaction arising out of commencing or conducting the business. These accounts, which are usually kept separate from the Personal Accounts in a Private or General Ledger, may again be divided into Real Accounts and Nominal Accounts. The former represent the assets acquired and liabilities incurred in commencing and conducting the business, and the latter show under their respective headings the profits earned and losses incurred as a result of the operations of the business.

A proper understanding of this classification of the ledger accounts is of great importance, as with the aid of a few simple rules detailed later on no one with a knowledge of double-entry Bookkeeping should have any difficulty in preparing, and in grasping the principles of the preparation of, a Profit and Loss Account and Balance Sheet. Perhaps if this classification is set out in a form with which all are presumably familiar from bitter juvenile experience, it will assist in making matters clearer:—

LEDGER ACCOUNTS

Personal A/cs. Impersonal A/cs.

Debtors. Creditors. Real A/cs. Nominal A/cs.

Assets. Liabilities. Losses. Profits.

This hard-and-fast classification may be objected to by some on the grounds that the "Personal" element cannot altogether be eliminated from a number of the "Real" accounts, nor the "Real" element from the "Personal" accounts. That such is the case is readily admitted; but it need hardly be pointed out that the introduction of a discussion on such points which are, after all, purely theoretical, would tend to confusion when there need be none. On the other hand, it is submitted that the above diagram represents matters correctly from a practical point of view; it is complete and, above all, easily understandable.

Rules to Facilitate Preparation of Profit and Loss Account and Balance Sheet.

It may be taken for granted that no difficulty will be experienced in determining the personal accounts, seeing that such accounts will, on the face of things, make their nature perfectly clear. In setting about the preparation of the Profit and Loss Account and Balance Sheet such accounts can therefore be ignored (except that it must be remembered that the total of the debtors' balances will be shown in the Balance Sheet as an asset, and the total of the creditors' balances as a liability) and attention confined to the Impersonal or Private Ledger Accounts.

Referring again to the diagram, it will be seen that each Impersonal Account represents one of the following: An asset, a liability, a loss or a profit. The accounts representing assets and liabilities will appear in the Balance Sheet, and will remain open in the ledger. Those representing losses and profits will be closed by having their balances transferred to Profit and Loss Account. All that is now required is some means of distinguishing between these different classes of accounts, and it is thought that a careful study of the following will enable this to be done without difficulty:—

1. Every debit balance represents either an asset or a loss.

2. Every credit balance represents either a liability or a profit.

3. In order to ascertain whether any debit balance represents an asset or a loss, apply this test. Does this balance represent an account owing to the business, or something for which the business could obtain cash if realised upon? If such is the case, the balance represents an asset—if not, then it represents a loss.

4. In order to ascertain whether any credit balance represents an asset or a loss, apply this test. Does this balance represent an account owing by the business either to an outsider or to the proprietors? If so, the balance represents a liability—if not, a profit.

Of course, as one gets further into the subject of Accountancy, involving the introduction of more intricate points, these rules have to bear some expansion, but so far as concerns the bookkeeping necessary for the average business their application will enable the required result to be achieved.

Having now ascertained the rules for guidance in distinguishing between assets and losses on the one hand, and liabilities and profits on the other, and remembering that all profits and losses are transferred to Profit and Loss Account no difficulty should be experienced in the preparation of this account.

In trading concerns it is the practice to divide Profit and Loss Account into two parts. The first portion, Trading Account, is designed to show the gross profit earned by the business (i.e., the excess of the selling price over the cost price or, in other words, the profit made before deducting the cost of selling and management), and if this account is prepared on proper lines it serves, as will be seen, a number of useful purposes.

Trading Account.—In a trading concern this account is debited with the value of stock as at the previous balance-day, all purchases (less returns) of new stock, and all expenses incurred in landing the goods at the warehouse. These expenses would include cartage inwards, duty, wharfage, etc. Trading Account is credited with sales (less returns) for the period, and with the value of the stock on hand at the present balance-day. It is important that no items other than those of the class indicated should be included in

this account, otherwise the chief value attaching to the preparation of the account is sacrificed. A trader in arriving at the selling-price of his goods generally adds to the total cost of such goods a certain percentage for gross profit. Where this is done and the Trading Account is properly prepared, the amount of gross profit as disclosed by that account will supply him with information of vital importance. The gross profit should equal a certain percentage of the Sales. What this percentage should be will depend, of course, upon the percentage added to the cost price in arriving at the selling price. If, say 50 per cent. is added to cost price, the gross profit should be 33 1/3 per cent. of the Sales; if 33 1/3 per cent. is added, the gross profit should be 25 per cent. of sales, and so on. As already indicated, the Trading Account should be debited with the totals of all expenses which the trader has taken into account when "costing," and if any of these expenses are omitted from that account, or if any other expenses are wrongly included, the error naturally has its reflex on the amount of gross profit disclosed, and renders the Trading Account practically useless for information purposes.

Assuming that the proper items have been included in Trading Account, if the gross profit is less than it should be, it indicates that one or more of the following things has happened:—

1. Goods have been sold at less than the proper price.

2. Stock has been taken on the wrong basis.

3. Stock has been stolen.

4. Money received for Cash Sales has been misappropriated.

5. Errors have been made in "costing," resulting in the sale of goods at less than the proper prices.

If, on the other hand, the gross profit is more than it should be, then, either the selling-price has been too high, owing to errors in costing, or Stock has been taken at more than cost price.

Of course, in many businesses—more especially in retail houses—it is impossible to adhere to a fixed percentage of profit to cover all lines of goods, and in such cases the information mentioned above cannot be obtained. In large warehouses, where the different classes of goods are kept in

separate departments, it is usual to provide a Trading Account for each department, and the required information is then available in respect of each portion of the business. This matter, is, however, dealt with in detail in a later chapter under the heading of "Departmental Accounts."

It might be barely mentioned at this stage that in a manufacturing business additional expense has to be incurred before goods are in a saleable condition, and the wages paid to the workmen employed in the manufacture will be taken into account when costing, the selling price being based on a percentage added to the invoice price of raw material, plus inward expenses, plus productive wages. This being the case it will be seen that productive wages must be included in a manufacturer's Trading Account.

Profit and Loss Account.—This account is designed to show the amount of net profit earned or net loss incurred during the financial period covered by the account, also the various headings under which the profits have been earned and losses incurred. It is first credited with the amount of gross profit transferred from Trading Account. The balances of all the remaining nominal accounts are then transferred, the difference between the two sides representing the net profit or the net loss.

In the case of a sole trader the balance of Profit and Loss Account is almost invariably transferred to his Capital Account. In a partnership concern or a limited company, the balance is transferred to an Appropriation Account, and through that account appropriated, in the case of the former, according to the terms of the partnership agreement, and, in the case of the latter, according to the decision of the shareholders.

Balance Sheet.—This is a statement of the ledger accounts remaining open after the balances of the nominal accounts have been transferred to Trading and Profit and Loss Accounts. This is the difference between a Balance-sheet and a Trial Balance, as the latter consists of a statement of the ledger balances before the nominal accounts have been closed.

The accounts remaining open consist, of course, of assets and liabilities, and a statement of these, setting the liabilities on one side and the assets on the other, should give a properly agreed Balance Sheet. It is the custom to state the liabilities on the left-hand side, and the assets on the right-hand side, or on the opposite sides to which the respective

balances would appear in the Ledger. Numerous reasons have been put forward to account for this, most of them apparently based upon the wrongful assumption that a Balance Sheet is an account, but none of these appears to be altogether satisfactory. The matter is not considered to be of sufficient importance to warrant a lengthy discussion; a Balance Sheet is merely a statement of the assets and liabilities of a business, and if the statement sets out clearly which are the "Assets" and which the "Liabilities," no one can possibly be misled. It should be noted that it is incorrect to refer to the "Debit" or "Credit" side of a Balance Sheet, also to use the words "To" and "By" as prefixes to the items on the liabilities and assets sides respectively. As already indicated, a Balance Sheet is a statement—not an account—and these expressions, used to indicate the debit and credit entries in an account, are out of place when applied to such a statement.

Order of Stating Liabilities and Assets.—In a Balance Sheet prepared for a sole trader, or for a partnership, it is usual to state the liabilities in the order in which they will have to be met, and the assets in the order in which they could be easiest realised. Thus the liabilities of the average trading concern would appear in the following order: Bank overdraft, Bills Payable, Trade Creditors, Sundry Creditors, Creditors for Loans, Reserves, Capital Accounts of proprietors; and the Assets—Cash, Bank, Bills Receivable, Sundry Debtors, Stock, Furniture and Fittings, Horses and Carts, Premises. No difficulty will be experienced in inserting any additional items in their proper places.

In the Balance Sheet of a limited company (no doubt, following the specimen Balance Sheet attached to Table "A" of the Companies Act), the order is exactly reversed, Capital appearing first on the liabilities side, and the fixed assets, such as Property, etc., on the assets side.

In preparing a Balance Sheet for a sole trader, or a partnership, it should be remembered that this is for the private information of the proprietor or proprietors, and as much information of a relevant nature should be included therein as possible. The Capital account or accounts should be set out in such a way as to disclose the movements during the year; i.e., there should be shown in an inner column the Capital at the beginning of the year, plus profit, plus interest (if any), and less drawings, the Capital as it now stands being extended into the outer column.

Classes of Assets.—Any expenditure incurred by a business for the purpose of acquiring assets, whether of a tem-

porary or permanent nature, is called capital expenditure as distinguished from revenue expenditure—i.e., expenditure incurred for which nothing of a tangible nature is received. The assets of a business consist of two classes—Fixed and Floating. Fixed assets are those acquired for permanent use in a business, and include Plant and Machinery, Furniture, Premises, etc.; and the Floating assets those which are essentially of a fluctuating nature, such as Stock-in-trade, Bills Receivable, Sundry Debtors, Cash, etc. Another distinction between these two classes of assets is in the basis of the valuation at which they appear in the books. Fixed assets appear in the books at cost price (less any amounts written off for depreciation), but floating assets should never appear at more than their actual realisable values. The realisable value of floating assets would, in most cases, be a matter of estimate, but every care should be taken that the estimate is as accurate as possible. It might also be pointed out here that, whilst any depreciation of floating assets must be provided for, a Company is apparently under no legal obligation to provide for depreciation of its fixed assets before the ascertainment of profits. Of course, the folly of omitting to make good out of profits a deterioration in the value of assets on the part of any business undertaking intending to carry on permanently, is apparent, but this point is dealt with in extenso under the heading of "Depreciation," in Chapter III.

It might not be out of place in concluding this chapter to point out the advisability of exercising care in naming the various statements prepared from financial books. Generally speaking, any sort of statement containing two money columns, the totals of which agree, is referred to as a Balance Sheet, and remarks, such as follow, are frequently seen in print: "The Balance Sheet shows that the expenditure exceeded the revenue by £348 19s. 6d" or "It will be seen from the Balance Sheet that the expenses have increased during the year by £500."

A summary of the Cash Book (called, in most cases, a Receipts and Payments Account) is very often confused with a Profit and Loss Account, when there is, in reality, very little similarity between the two statements, apart from the fact that they each contain two money columns. The Profit and Loss Account of a professional business, or of a society of any kind, is usually termed an Income and Expenditure Account, or in the case of a company which derives the bulk of its income from investments, a Revenue Account, but the change of name does not alter the nature of the account. The main points of difference between a Receipts and Payments Account (a Cash Account) and a Profit and Loss Account may be summarised as follows:—

(a) A Cash Account includes cash receipts and payments for the period covered by the statement, irrespective of when such receipts were earned or expenditure incurred. A Profit and Loss Account shows, on the other hand, all income earned during the period, whether it has been received or not, and all expenditure incurred whether payment has been made or not .

(b) A Cash Account includes capital as well as revenue items, as, for example, cash received from shareholders as additional capital, or money expended on acquiring fixed assets such as Plant and Machinery. A Profit and Loss Account includes revenue items only.

The following is the Trial Balance, extracted from the book of G. A. Martin, on the 31st December, 1920. From the figures disclosed therein, and the information at the foot a Trading Account, Profit and Loss Account, and Balance Sheet have been prepared, and it should prove useful to trace the items in the Trial Balance to their destination, applying the rules already supplied.

TRIAL BALANCE.

G. A. Martin, Capital Account	—	£12,000
Do. do. Drawings Account	£400	—
Bills Payable	—	550
Bills Receivable	650	—
Cartage Inwards	400	—
Cartage Outwards	100	—
Cash at Bank	300	—
Commission Paid	500	—
Discount	250	—
Duty Account	600	—
Freehold Property Account	1,500	—
Furniture and Fittings	200	—
General Expenses	300	—
Interest on Loan at 5 per cent. per annum	150	—
Leasehold Premises	1,850	—
Plant and Machinery Account	3,000	—
Loan on Mortgage	—	3,000
Purchases	13,000	—
Rents, Rates, and Taxes	600	—
Sales	—	18,000
Salaries and Office Expenses	700	—
Stock-in-trade on 1st January, 1920	9,000	—
Sundry Debtors	9,050	—
Sundry Creditors	—	9,000
	£42,550	£42,550

The stock-in-trade on 31/12/20 as shown by the stock sheets amounted to £9500. Provide for depreciation on freehold property at 5 per cent. per annum; on leasehold property at 10 per cent. per annum; on plant and machinery at 10 per cent. per annum. Write off £150 for bad debts.

TRADING ACCOUNT FOR THE YEAR ENDING 31/12/20.

December 31—			December 31—	
To Stock-in-trade on January 1st, 1920		£9,000	By Sales	£18,000
„ Purchases during the year		13,000	„ Stock-in-trade as per Stock Sheets	9,500
„ Duty on imported goods		600		
„ Cartage Inwards		400		
„ Gross Profit on Trading transferred to Profit and Loss A/c.		4,500		
		£27,500		£27,500

PROFIT AND LOSS ACCOUNT FOR YEAR ENDING 31/12/20.

December 31—			December 31—	
To Rents, Rates, and Taxes		£600	By Gross Profit brought down from Trading Account	£4,500
„ Salaries and Office Expenses		700		
„ Cartage Outwards		100		
„ Commission		500		
„ Discounts		250		
„ General Expenses		300		
„ Interest on Loan		150		
„ Bad Debts Written Off		150		
„ Depreciation of Fixed Assets, viz.:—				
Freehold Property	£75			
Leasehold Property	185			
Plant and Machinery	300			
		560		
„ Net Profit for the year transferred to Capital Account		1,190		
		£4,500		£4,500

BALANCE SHEET OF G. A. MARTIN AS ON 31/12/20.

Liabilities.			Assets.		
Bills Payable		£550	Cash at Bank		£300
Sundry Creditors		9,000	Bills Receivable		650
Loan on Mortgage		3,000	Sundry Debtors	£9,050	
Capital as on 1/1/20	£12,000		Less Bad Debts written off	150	
Add Profits for Year	1,190				8,900
			Stock-in-trade per Stock Sheets		9,500
	£13,190		Furniture and Fittings		200
Less Drawings	400		Plant and Machinery value as on 1/1/20	£3,000	
		£12,790	Less Depreciation at 10 per cent.	300	
					2,700
			Freehold Property value as on 1/1/20	£1,500	
			Less Depreciation at 5 per cent.	75	
					1,425
			Leasehold Property as on 1/1/20	£1,850	
			Less Depreciation	185	
					1,665
		£25,340			£25,340

CHAPTER II.

SELF-BALANCING LEDGERS.—BALANCING BOOKS KEPT BY SINGLE ENTRY.

SELF-BALANCING LEDGERS.—This term does not mean, as might be supposed, that certain kinds of ledgers are by some magical process capable of balancing themselves, but that where more than one ledger is kept they can be so arranged that the bookkeeper is enabled to balance each ledger independently. Whilst the necessary treatment of the books to effect this desirable state of affairs can hardly be included under the heading of Advanced Accountancy, experience shows that even in these days there are numbers of bookkeepers who are quite capable of keeping books by double-entry and of preparing the final accounts and balance-sheet, but who know little or nothing of this system. As in the majority of businesses it is found necessary to keep at least two ledgers, the advantages of being able to balance these separately hardly require pointing out. It is evident that if an error is made the balancing of the books is greatly facilitated if it can be localised without difficulty.

In order to enable the explanation to be simplified as much as possible let it be assumed that a trader keeping three ledgers, viz., Private or General ledger, Sales or Customers' ledger, and a Bought or Merchants' ledger, desires to have these ledgers made self-balancing. The procedure to give effect to this desire in the first place is simplicity itself. A trial balance is extracted from the books, the balances of the accounts in the three ledgers being included in order to enable an agreement of the two sides to be arrived at. It is more usual to make separate lists of the balances in the Sales and Bought ledgers respectively, and assuming that this has been done the total of the balances in the Sales ledger will appear on the debit side of the trial balance in one amount as "Sundry Debtors." Similarly, the total of the balances in the Bought ledger will appear on the credit side as "Sundry Creditors." If the posting, &c., has been carried out correctly the two sides of the trial balance should now agree.

From the above it is clear that the list of balances (debit and credit) extracted from the Private ledger only requires the addition of the total balances in the Sales and Bought

ledgers in order to enable a trial balance to be obtained. If, therefore, an account is opened in the Private ledger called, say, Sundry Debtors Account, and the total of the balances in the Sales ledger debited to that account, and another account opened, called Sundry Creditors Account, and credited with the total of the balances in the Bought ledger the following results are achieved:—

(a) The Private ledger will be self-balancing, i.e., a list of the debit and credit balances in that ledger will agree.

(b) The total of the Sales ledger balances will agree with the balances of Sundry Debtors Account.

(c) The total of the Bought ledger balances will agree with the balance of Sundry Creditors Account.

It should be noted that if any of the accounts in the Sales ledger have credit balances (as sometimes occurs), the total of such credit balances must be deducted from the total of the debit balances, and not added to the Bought ledger balances. Similarly debit balances in the Bought ledger will be deducted from the total credit balances in that ledger, and not added to the Sales ledger balances.

It should also be noted that where more than one Sales ledger is used and it is desired to balance each of these independently, a separate Sundry Debtors Account should be opened for each ledger.

Having thus dealt briefly with the procedure necessary to start the ledgers off on the self-balancing system it remains now to explain the means of enabling the system to be carried out as regards future transactions.

It is obvious that if the Private ledger is to continue to be self-balancing, it is necessary that the double-entry should be completed in that ledger in every case. The reason why, under the old system, it was necessary to include the balances of all the ledgers in the trial balance is that in most cases the debit entry would be in one ledger and the credit entry in another. To give an illustration: When a sale was effected the amount of the invoice would be debited to an account in the Sales ledger, but the credit entry (the amount of the invoice being included in the total of the Day-book) would be made in the Private ledger, the total Sales being credited to Sales Account. Now that there is an adjustment account (Sundry Debtors Account) to represent the Sales ledger in the Private ledger the double entry can be completed in the

latter. The total sales are debited to Sundry Debtors Account and credited to Sales Account. In the same way, all entries which have been posted into the Sales ledger during the month (assuming that the business takes out a trial balance monthly) are also posted to Sundry Debtors Account. It would, of course, involve an immense amount of labor if each item posted to the Sales ledger during the month had also to be posted to the adjustment account, but the necessity for this is obviated by arranging the books so that the monthly totals of these entries can readily be ascertained and the posting to the Adjustment Accounts is done in totals. The position is then, that by posting the totals of the individual items which have passed through the Sales and Bought ledgers during the month to their respective adjustment accounts in the Private ledger, the double-entry is completed in that ledger each month, thus enabling the Private ledger to be balanced by itself. The total of the balances in the Sales ledger will also agree with the balance of Sundry Debtors Account, and the total of the Bought ledger balances with Sundry Creditors Account.

It will no doubt make matters clearer if the procedure in connection with the totals of the various books affecting the adjustment accounts referred to above is explained briefly.

Day Book or Sales Journal.—Each item in this book is posted during the month to the debit of an account in the Sales ledger. Under the old method of balancing the double-entry was completed by posting the total sales to the credit of Sales Account. Now, however, the double-entry is completed in the Private ledger at the end of each month, by debiting Sundry Debtors Account and crediting Sales Account with this total.

Returns Inward Book.—Individual items posted to the credit of Sales ledger Accounts. The monthly total is debited to Sales Account and credited to Sundry Debtors Account.

Returns Outward Book.—Individual items posted to debit of Bought ledger accounts. The monthly total is credited to Purchases Account and debited to Sundry Creditors Account.

Invoice Book or Purchase Journal.—Each item in this book having been posted to the credit of an account in the Bought ledger, the total is posted to the credit of the Purchases Account. The double-entry is completed in the Private ledger by crediting this total to Sundry Creditors Account.

Bills Receivable Book.—Individual items posted to the credit of Sales ledger accounts. The monthly total is posted to the debit of Bills Receivable Account and to the credit of Sundry Debtors Account.

Bills Payable Book.—Individual items posted to debit of Bought ledger accounts. The monthly total is debited to Sundry Creditors Account and credited to Bills Payable Account.

Cash Book.—This book should be so arranged that the total cash received from debtors, i.e., persons having accounts in the Sales ledger, can be ascertained with a minimum of trouble. This can be effected by introducing an additional money column on the debit side in which all amounts to be posted to the Sales ledger are inserted. The total of the columns will, at the end of the month, be posted to the credit of Sundry Debtors Account. It is perhaps hardly necessary to point out that this total does not require to be posted to the debit of any account in the Private ledger as the Cash Book itself is in reality a Private ledger account, and the debit entry has already been made therein.

By a similar arrangement of the credit side of the Cash Book the total amount paid during the month to creditors, i.e., persons having accounts in the Bought ledger, can readily be ascertained. This total is posted to the debit of Sundry Creditors Account, thus completing the double-entry in the Private ledger. Any amounts of discount allowed to customers during the month and posted to the credit of their respective accounts will appear in the "Discount" column on the debit side of the Cash Book. The total of the column will at the end of the month be posted to the debit of Discount Account and to the credit of Sundry Debtors Account. The total discount received from creditors as shown by the "Discount" column on the credit side of the Cash Book will be debited to Sundry Creditors Account and credited to Discount Account.

Having now explained the procedure by which all the items posted to the Sales and Bought ledgers during the month (except odd Journal entries affecting personal accounts which are dealt with below) are passed through the adjustment accounts for these ledgers at the end of the month it remains to set out specimen adjustment accounts showing how these accounts will appear in the Private ledger after these entries have been made. They should also make perfectly clear the reason why the balances of these accounts agree respectively with the totals of the balances in the Sales and Bought ledgers. It should be noted that imaginary

figures are used, and it is assumed that the commencing balances have been obtained as mentioned at the beginning of this chapter by ascertaining the total balances in the Sales and Bought ledgers.

SUNDRY DEBTORS A/C. (In Private Ledger).

1920.	Dr.		1920.		Cr.
Jan. 1	To Balance ..	£486 19 3	Jan. 31	By Returns Inward	£14 3 6
31	,, Sales	563 15 8		,, Bills Rec'vable	286 19 4
				,, Cash	219 10 5
				,, Discount ..	7 8 4
				,, Balance ..	522 13 4
		£1,050 14 11			£1,050 14 11
Jan. 31	To Balance ..	£522 13 4			

SUNDRY CREDITORS A/C (In Private Ledger).

1920.	Dr.		1920.		Cr.
Jan. 31—			Jan. 1	By Balance	£236 13 4
	To Returns Outward ..	£7 2 9	Jan. 31	,, Purchases ..	198 17 2
	,, Bills Payable	57 10 0			
	,, Cash	130 15 6			
	,, Discount	4 10 6			
	,, Balance	235 11 9			
		£435 10 6			£435 10 6
			Jan. 31	By Balance ..	£235 11 9

Journalising Monthly Totals.—Following on the explanation as to the results achieved by completing the double-entry in the Private ledger in every case, it should be noted that it is advisable to pass monthly totals through the Journal, instead of posting direct from the subsidiary books to the debit and credit of the accounts affected. The advantages gained by journalising these totals are—(1) a complete summarised record of the whole month's transactions is contained on one page of one book; (2) the skeleton entries can be copied forward each month, the danger of overlooking a total being thus minimised; (3) as the Private ledger is generally kept by the manager (or some other senior officer) the Journal will supply him with the whole of the information he requires to enable him to keep this ledger. Seeing that the passing of the monthly entries through the Journal could not possibly take more than from ten to fifteen minutes' additional work, no reasonable objection can be urged against this practice. A specimen of the monthly entries necessary to effect the result shown above is supplied herewith.

JOURNAL.

Jan. 31	Sundry Debtors Account ... ... Dr.	£563	15	8				
	To Sales Account				£563	15	8
	Purchases Account ... ... Dr.	198	17	2			
	To Sundry Creditors Account ...				198	17	2
	Sales Account (Returns) ... ... Dr.	14	3	6			
	To Sundry Debtors Account				14	3	6
	Sundry Creditors Account ... ... Dr.	7	2	9			
	To Purchases Account (Returns)...				7	2	9
	Bills Receivable Account ... ... Dr.	286	19	4			
	To Sundry Debtors Account				286	19	4
	Sundry Creditors Account ... ... Dr.	57	10	0			
	To Bills Payable Account				57	10	0
	Cash Account ... ... Dr.	219	10	5			
	To Sundry Debtors Account				219	10	5
	Sundry Creditors Account ... ... Dr.	130	15	6			
	To Cash Account				130	15	6
	Discount Account ... ... Dr.	7	8	4			
	To Sundry Debtors Account				7	8	4
	Sundry Creditors Account ... ... Dr.	4	10	6			
	To Discount Account				4	10	6

A matter which should receive the careful attention of anyone commencing to keep self-balancing ledgers who is not already thoroughly conversant with the system, is that relating to odd Journal entries affecting personal accounts passed during the month. Care should be taken to see that any such entries are also posted to the Adjustment Account in the Private ledger, otherwise the trial balance will not agree.

To give an illustration:—Suppose a Journal entry has been passed during the month debiting John Williams (a Sales ledger account) with £3 14s. 8d. for interest on an overdue promissory note, and crediting Interest Account. The debit entry has been made in the Sales ledger and the credit entry in the Private ledger, so that unless some means of completing the double-entry in the Private ledger is adopted any efforts at obtaining a trial balance will be strenuous but misdirected. It is clear that a corresponding debit entry must be made in Sundry Debtors Account, otherwise the Sales ledger will not balance with that account, seeing that a debit entry has been made in the Sales ledger, which has not been made in Sundry Debtors Account. Other entries made in the Sales ledger during the month (e.g. Sales) are posted in monthly totals to Sundry Debtors Account, but odd entries affecting personal accounts passed through the Journal have to be posted separately to either Sundry Debtors or Sundry Creditors Account, as the case may be. Where transactions of this class are not frequent the amount of work involved in posting each transaction separately to its adjustment account in the Private ledger

is not out of the way. Where, however, such transactions are numerous it is advisable to arrange the Journal ruling so that the monthly totals of the Journal entries affecting the Sales and Bought ledgers can be ascertained, thus saving the necessity of a separate posting for each entry. For example, where only one Sales ledger and a Bought and Private ledger are in use the Journal could be tabulated in the following way, and the transaction mentioned above would then appear as under:—

TABULAR JOURNAL.

Sales Ledger.	Bought Ledger.	Private Ledger.	Fol.	Date.		Sales Ledger.	Bought Ledger.	Private Ledger.
314 8			346	Jan. 14	John Williams Dr.			
			P.L. 48		To Interest A/c.			314 8

Subdivision of the Ledgers.—In most businesses it is found necessary to split the Sales ledger up into several sections, owing to the fact that the customers' accounts are too numerous to be conveniently handled in one ledger. This subdivision may be made on an alphabetical basis, e.g. A to K, L to Z ledgers, or upon a geographical basis, e.g., town and country. Whatever system of subdivison is adopted, and whatever the extent of such subdivision may be—whether into two or twenty ledgers—the books can be arranged so as to enable each ledger to be balanced separately. A separate adjustment account must be opened in the Private ledger for each division of the Sales ledger, and the transactions relating to the various ledgers must be kept distinct by some means in order to enable the monthly totals to be ascertained and posted to the respective adjustment accounts.

Where there are not more than two or three Sales ledgers this information can be arrived at by introducing two or three (as the case may be) money columns into the Day Book, in this way keeping the sales affecting each ledger in separate columns. A similar arrangement of the "Debtors" and "Discount" columns on the debit side of the Cash Book would be necessary. With reference to Bills Receivable and Returns (unless these are numerous) the necessary totals could be arrived at by dissection.

Where, however, the subdivisions of the ledger are greater it is advisable to have a separate set of sub-journals

for each division, otherwise great inconvenience will be experienced by the ledger keepers in keeping their posting up to date. A subsidiary Cash Book should also be kept for each division, the daily total of each book being carried into the general Cash Book.

Before leaving this subject it might be as well to note that it is a common practice for a Sales ledger-keeper to post in a reversed form the monthly totals of the transactions affecting his particular ledger to an account at the back of his ledger called "Private Ledger Adjustment account." As these totals are reversed in posting, this account will necessarily have a credit balance equalling the debit balance in the adjustment account in the Private ledger. The object of keeping this account in the Sales ledgers appears to be that it has the effect of making them self-balancing in the truest sence of the word, i.e., the debit balances in the ledger will equal the credit balances (or balance). The keeping of these additional accounts is unnecessary, seeing that the balances in the Sales ledger can be agreed with their respective adjustment accounts.

PREPARING STATEMENTS FROM BOOKS KEPT BY SINGLE-ENTRY.—Single-entry bookkeeping is an unsatisfactory subject to deal with from the standpoint of a text-book writer as well as from that of an accountant. To begin with, the bookkeeping described as "single-entry" is an unknown quantity, and can only be defined in a negative way, as, for example, that it covers all kinds of bookkeeping which cannot be classed under the heading of double-entry. The term includes alike the fearful and wonderful devices of many small shopkeepers and most professional men, and the almost complete systems of many merchants, which with a little knowledge and a few minutes' work each month could be converted into double-entry. The term covers also the wide range of more or less ingenious methods which lie (often in more senses than one) in between these two extremes.

In order, therefore, to attempt any explanation as to procedure it is necessary in the first place to make some assumption as to the amount of information available from the books from which it is desired to prepare complete accounts for a certain period, say twelve months. It may be taken for granted that the business has kept a Sales ledger and a Cash Book, these two books representing in the large majority of cases the extent of the accounting of concerns which kept their records on the single-entry principle. It might be pointed out at the outset that, unless it is possible to ascertain

exactly or estimate very closely the value of the stock on hand at the beginning of the period, it is hopeless to attempt to proceed further, as it is a matter of impossibility to supply any reliable estimate of the profit if this information is not available. Assuming that the amount of the stock at the beginning can be ascertained, the procedure to be adopted to arrive at the required result would be along the following lines:—

It should first be ascertained that the Sales ledger has been posted to date, and that no transactions of any description affecting accounts in that ledger have been overlooked.

The accounts in that ledger should then be tabulated, i.e., the transactions for the past twelve months disclosed by the various accounts in the ledger should be dissected on sheets ruled with such a number of columns as the circumstances may require. The accounts should be taken in the order in which they appear in the ledger, so as to ensure that none is overlooked. Great care should be exercised in taking out and tabulating the figures, as no check, or very little, can be obtained on their accuracy when the list is completed.

A careful study of the accompanying illustrations of the tabulation of a few of the accounts should make the method of procedure quite clear.

Having completed the dissection of the Sales ledger on the lines indicated, the various columns should be totalled and the information thus made available should be dealt with as below. The various columns have been numbered to facilitate reference.

No. 1.—This total will represent the amount owing by debtors at the beginning of the year. This information will be required in opening up the accounts for the various assets and liabilities as at the beginning of the year, a procedure which is dealt with a little later.

No. 2.—To complete the double entry it will be necessary to credit this total to Sales account. It is, however, advisable to open up an adjustment account in the Private ledger for the Sales ledger, so that the double-entry in respect of this total would be debit Sundry Debtors account and credit Sales account.

No. 3.—Debit Sundry Debtors account. The credit entry will already have been made in the Cash Book.

No. 4.—Debit Sundry Debtors account and credit Interest account.

DISSECTION OF SALES LEDGER.

FOR 12 MONTHS TO 31st DECEMBER, 1920.

Debits.

Name of Account		Opening Balance 1st Jan.	Sales	Bills and Cheques dish'd	Interest		Sundries Amount	Sundries Particulars	Total Debits	Led. Fol.
Abrahams	J	26 9 2	129 10 6	40	1		1	Stamp duty	197 8	1
Adams	S		19 2 10						19 2 10	2
Arthur	J	4 2 6	12 8 6						16 11	4
Astley	A	17 9 4	84 5 4				2 6	Telegrams	101 17 2	7
Banks	L		4 2 9	4 2 9					8 5 6	15
Baker	M	2 1 9	26 8 3						28 11	16
		1	2	3	4		5	6		

Credits.

Name of Account	Cash	Discount and Allowances	Bills	Returns		Sundries Amount	Sundries Particulars	Total Credits	Final Balance 31st Dec.
Abrahams	92 1	2 1 6	81 1	3 9 3				175 14 9	18 5 11
Adams	15	7 6						15 7 6	3 15 4
Arthur	16 2 9	8 3						16 11	
Astley	80 10 6	2 3		1 6				83 16 9	18 5
Banks	8 5 6							8 5 6	
Baker	14 10							14 10	14
	7	8	9	10		11	12		13

DISSECTION OF CASH BOOK FOR YEAR ENDING DECEMBER.

Debit Side.

Discounts Allowed	Sales Ledger	Cash Sales	Bills Matured & Discounted			Sundries		Total
						Amount	Particulars	

Credit Side.

Purchases	Bills Retired	Advertising	Commission	Stationery etc.	Salaries	Wages	Rent	Carriage	Proprietor's Drawings		Sundries		Total
											Amount	Particulars	

No. 5.—This column should be dissected, the total being debited to Sundry Debtors account, and the amounts obtained by the dissection credited to the respective nominal accounts in the Private ledger.

No. 6.—This supplies information as to the nature of the items included in No. 5.

No. 7.—Credit Sundry Debtors account. The debit entry has already been made in the Cash Book.

No. 8.—Debit Discount and Allowances account and credit Sundry Debtors account.

No. 9.—Debit Bills Receivable account and credit Sundry Debtors account.

No. 10.—Debit Sales account and credit Sundry Debtors account.

No. 11.—The total credited to Sundry Debtors account and the various classes of items making up this total debited to suitable accounts in the Private ledger.

No. 12.—Similar to Column 6.

No. 13.—This total will represent the amount owing by debtors at the end of the year, and should agree with the balance of Sundry Debtors account in the Private ledger.

The totals of the various columns referred to above, and also those obtained from the dissection of the Cash Book must not, of course, be posted until the books have been opened up with the balances of the various assets and liabilities as at the beginning of the year, otherwise the entries will not appear in the Private ledger in chronological order. It is not advisable, however, to pass the opening entries until the Sales ledger and Cash Book have been dissected, as information may be obtained in going through these books which will be useful in enabling a correct statement of the position as at the beginning of the year to be arrived at.

If a Bought ledger has been used (although this is not common in cases where books are kept by single-entry) a tabulation similar to that already explained will supply the totals of the various transactions which have passed through that ledger, and these totals will be dealt with as required. If this ledger is lacking, the necessary information must be obtained by other means.

Coming now to the Cash Book, a somewhat elaborate tabulation will be necessary—more especially with regard to the amounts appearing on the credit side. It is thought that a careful inspection of the accompanying specimen ruling will be all that is necessary to make apparent both the method of preparation of the dissection of this book, and the disposal of the various totals. As many additional columns may be added to each side as are required. Before commencing this dissection it is of course essential that the Cash Book be checked carefully with the bank pass-book and reconciled therewith. In connection with the Discount column on the debit side it will probably be found that particulars of discounts allowed are not always recorded in the Cash Book. In such cases there is nothing for it but to rely solely upon the total of the "Discounts" column in the Sales ledger dissection for information as to the total of this item.

Some little trouble may be experienced in ascertaining the amount of purchases applicable to the year for which the accounts are being prepared. The total of the "Purchases" column in the Cash Book dissection will not necessarily show this, and, indeed, it is extremely unlikely that this will be the correct amount. The proper amount can be arrived at by finding the amount owing to creditors at the beginning of the year. This will in most cases necessitate the turning up of the statements rendered by creditors during the first two months or so of the year, from which can be extracted a list of the amounts owing for goods supplied prior to the beginning of the year. A list of the amounts owing to creditors on the last day of the year should be ascertained without much difficulty, and the actual purchases during the year can be calculated. Add the amounts now outstanding to the total of the "Purchases" column already referred to and deduct the amounts owing at the beginning of the year.

The amount so ascertained should be debited to Purchases account, and credited to Sundry Creditors account. The total of the "Purchases" column in the "credit side" dissection can then be posted to the debit of Sundry Creditors account. The Bills Payable account will require to be built up in a somewhat similar way.

Having now ascertained the totals of the various columns in the Sales ledger and Cash Book dissection sheets, it is necessary before posting them to the respective ledger accounts to prepare lists of the assets and liabilities as they stood at the beginning of the year. Of course the collecting of this information may be done at any time, but it is not advisable to pass the opening entries until the dissection of the Cash Book is completed, seeing that the information disclosed

therein may be useful in enabling the correct position at the beginning of the year to be arrived at. The totals of the various assets and liabilities having been ascertained, journal entries, such as are illustrated below, will, when posted, have the effect of opening up the books by double-entry as from the beginning of the year. The posting of the totals obtained by the various dissections should then be proceeded with, and this will complete the double-entry in respect of transactions which have taken place during the year.

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192		OPENING JOURNAL ENTRIES.						
Jan.	1	Stock-in-trade Account ... ... Dr.	£2,500					
		Horses, Carts and Harness ... Dr.	475					
		Fittings and Fixtures Account Dr.	220	10				
		Bills Receivable Account... ... Dr.	386	18	6			
		Sundry Debtors Account ... Dr. (as per list)	687	19	3			
		To Capital Account				4,270	7	9
		Being value of various assets stated above as at this date, after eliminating Bad Debts.						
		Capital Account ... ... Dr.	749	9				
		To Sundry Creditors Account (as per list)				587	10	6
		Bills Payable Account				129	3	6
		Reserve for Doubtful Debts				32	15	
		Being liabilities of the business as at this date, including a Reserve against Doubtful Debts, as per list.						

Having posted these entries and also the totals disclosed by the dissection sheets, the preparation of a Profit and Loss account can then be proceeded with in the usual way. It is apparent, however, that any Profit and Loss account prepared on the lines indicated in the foregoing explanation will depend for its accuracy upon the fact that the Sales ledger and Cash Book have been kept correctly during the year. Seeing that the bookkeeper has had no check upon his work, it is hardly likely that the Sales ledger could have been kept for a whole twelve months without any mistakes having been made. It is possible to obtain a check on some of the items by a comparison of the results obtained in the dissections already referred to. For instance, the Cash column in the Sales ledger dissection sheet should agree with the Sales ledger column in the dissection of the debit side of the Cash Book. Also if a Day Book has been kept by the proprietor this book should be added and the amount compared with the total of the Sales column in the Sales ledger dissection. Enough has been said to indicate that too much reliance cannot be placed upon the absolute accuracy of the results shown.

CHAPTER III.

BALANCE DAY ADJUSTMENTS—DEPRECIATION, FLUCTUATION, APPRECIATION.

BALANCE DAY ADJUSTMENTS.—When the trial balance has been extracted from the books on the last day of the financial period, there still remains a number of points to which it is necessary that attention should be given before the accounts are ready to be finally closed off. The Profit and Loss account is designed to show the net profit for the period, and it can do this only after account has been taken of all income earned irrespective of whether it has been received or not, all expenditure incurred whether it has been paid or not, and also losses which have been made within the business itself. In very few businesses is it possible to receive all outstanding income and to square up all outstanding expenses on balance day, and it is proposed to deal first of all with this class of adjustment and the necessary treatment in the books.

Book Debts.—The Sales ledger or ledgers should be gone through carefully by someone having a knowledge of the accounts and a list extracted of all accounts which are deemed to be bad or doubtful. It is perhaps advisable to have two money columns in this list headed respectively "bad" and "doubtful" and each balance should be placed in one or other of these columns. In taking out the list it is useful also to mark alongside the name of each customer the date of the last payment made by the customer—as in all probability the list will have to be referred to some senior officer before the necessary adjusting entries are made. These dates assist in determining whether the amounts are to be written off as bad or treated as doubtful.

A balance should not be finally written off as bad until it is certain that there is no possibility of the amount being recovered, as, for example, if the debt comes within the operation of the Statute of Limitations, or a final dividend has been received in the bankruptcy of the estate of the person whose account is in question. After the necessary authority has been given a list should be prepared of the bad debts and a Journal entry passed, debiting Bad Debts account and crediting Sundry Debtors account with the total, the individual items making up the total being posted to the credit of the respective accounts in the Sales ledger. These postings should be made in the personal accounts in red ink in order to make it apparent at any time that the balance has been written off and not closed by a payment.

With reference to the accounts which are doubtful it is advisable to transfer such accounts into a separate ledger or into a separate portion of the Sales ledger, as they require to be watched closely and the efforts made to secure payment will be facilitated by having them grouped together instead of having them scattered through various portions of the Sales ledger. The various steps taken in endeavoring to obtain recovery should be marked in a conspicuous way at the foot of each account. Very often business concerns despatch form letters which grow more peremptory in tone, first requesting and finally demanding payment, before the accounts are placed in the hands of a solicitor or of a Trade Protection Society to be finally dealt with. The fact of the various letters having been sent and also of the handing over of the accounts for collection should be carefully noted in the accounts.

Although these accounts will be stated at their full amounts in the ledger it is obvious that the whole of these will not be collected, and that a loss of a greater or smaller amount will eventually be made. Such being the case, it is necessary for some person being seized of the facts to go carefully through these doubtful accounts and make an estimate of the amount which it is expected will eventually be received. Provision must be made out of the profits for the difference, otherwise the profits will be overstated to that extent. In addition, the possibility that some of the debts, which are reckoned to be good, will eventually turn out to be bad must be taken into account, and it is usual for a percentage of these debts to be reserved. The amount which it is estimated will be lost in connection with the doubtful debts will not, of course, be written off the balances of these accounts, but will be transferred to a special reserve account, usually called "Reserve for Doubtful Debts account," together with the percentage which it has been decided to reserve in connection with the ordinary Sales ledger balances. In setting out the

balance-sheet this Reserve account may either be shown as a deduction from the balance of Sundry Debtors account or it may be shown as a reserve on the liabilities side, but if the latter course be adopted the item should be distinctly stated as a "Doubtful Debts" Reserve account.

Whilst on the subject of book debts it may be as well to point out that in some businesses the discount which is to be received and allowed on the debtors' and creditors' balances as they appear on balance day is provided for. Strictly speaking, this provision should always be made when regular settling days for both debtors and creditors are fixed, but the necessity for making such provision is not by any means universally recognised. It should, however, be quite clear that if the Sales ledger balances total, say, £3000, on balance day, and a discount is allowed to customers at the rate of $2\frac{1}{2}$ per cent. there will only be received in cash £2925, if the debtors pay in time to secure their discounts, and similarly if there is owing to creditors £2000 upon which will be received 3 per cent. discount, only £1940 will have to be paid in cash. This provision is made by putting through Discount account the discount to be received and allowed on the total balances in the creditors' and debtors' accounts as they stand on balance day.

It should be noted that all provisions and adjustments of this nature should be made through the nominal accounts before they are closed off and transferred to Profit and Loss account, and not through Profit and Loss account direct, otherwise that account is apt to be made very confusing by having included anything up to half-a-dozen items for discount. Using the above figures as an illustration, the journal entries required would be as follow:—

Dec.	31	Discount A/c. .. .. Dr.	75	
		To Discount Suspense A/c.		75
		Being $2\frac{1}{2}$ p.c. Discount on Debtors' balance at this date.		
		Discount Suspense A/c. .. .. Dr	60	
		To Discount A/c.		60
		Being 3 p.c. discount on Creditors' balances at this date.		

The Discount Suspense account would in the above case appear in the balance-sheet as a liability for £15, and the balance of this account would be transferred to the credit of Discount account on the first day in the new financial period.

Accrued Income.—Care should be taken to ensure that all income which the business has earned, whether it is due or only accrued, has been taken into account. For example, if

part of the premises owned by the business is sub-let, the rent being payable quarterly, and the balance day falls in between two quarter days, an entry must be passed debiting the lessee and crediting Rent account with the amount accrued up to balance day.

Considerable difficulty is experienced in most concerns which do the bulk of their business on a commission basis, e.g., indent agents, in arriving at the amount of commission earned up to balance day. The credits to Commission account during the year will be made from the statements received from their principals, but as these principals are usually foreign firms some time must elapse in between the date when the commission is earned and the date when advice is received of the credits for commission in the books of the principals. In those cases where the agents receive commission only upon the actual orders sent home by them the difficulty is not so marked, as by listing the orders sent a fairly accurate estimate of the amount of commission due can be obtained but where they are entitled to commission on all orders sent from their territory, whether the orders go through the agents or are sent direct, it is impossible to obtain any accurate estimate, and it is usual to ignore such commissions until advice is received from the principals. Where an estimate can be made of commission earned a journal entry is passed debiting Commission Accrued account and crediting Commission account, this entry being reversed on the first day of the next financial period.

Accruing Expenses.—These require to be watched closely, and it is advisable for the accountant of the business to take a note of any expenses incurred during the month prior to balance day, in order to ensure that all such are taken into account.

Regular expenses, such as wages, are not in so much danger of being overlooked, and it is, of course, necessary where the balance day occurs in between two pay days to calculate the accrued wages up to balance day and pass an entry debiting Wages account and crediting Sundry Creditors for Outstanding Expenses. All accrued expenses should be treated similarly, and it is not thought necessary to go into this matter in further detail, as sufficient has been said to indicate the points to which attention must be given in this respect.

Expenses Paid in Advance.—This is another matter which requires attention, as the unexpired portion of such payments should be carried forward to the following period, being temporarily capitalised, and appearing in the balance-sheet as

an asset. The most familiar illustration of this class of adjustment is in the case of fire insurance premiums, which are invariably paid in advance. The unexpired portion of the premium should be credited to Insurance Premiums account, and debited to Insurance Premiums Paid in Advance account, the last mentioned account appearing in the balance-sheet as an asset.

All adjusting entries made for accruing income, accruing expenses, and expenses paid in advance, should be reversed the day after balance day, the amounts being written back to the accounts from which they were carried on balance day.

Nothing has been said about the necessity for providing for depreciation on all wasting assets, but this is a matter which will now receive attention.

DEPRECIATION.—No apology is made for dealing with this subject at some length, as it is to be feared that it is not as fully understood as the importance of the subject would warrant. Even in this enlightened age it is not uncommon to see figuring in directors' reports statements such as the following:—

> "Repairs to machinery have been provided for out of revenue, and it is not thought necessary to make any charge against the profits for depreciation."

Even where provision for depreciation is made, there can be no doubt that in many cases the exact reason why this item should be charged against profits, and the effect of non-provision are not understood, but it is hoped that the method of treatment adopted will clear the air somewhat for those who have not previously had the opportunity of going into this matter fully.

Depreciation is the inevitable diminution in value of practically the whole of the assets of a business, owing to the use by the business of such assets in the effort to gain profits. This diminution in value is a loss which is incurred within the business itself as distinguished from those expenses or losses which necessitate a payment in cash. It is obvious that in order to enable the profits of a business to be stated correctly it is necessary to charge against profits, not only the expenses which are paid or payable in cash, but also any other losses which have been incurred in conducting the business. Take, for instance, the case of a manufacturing concern which utilises machinery in preparing for sale the goods in which it trades. The use of the machinery in manufacturing the goods will naturally cause the machinery to wear out, and

this deterioration in value is just as much one of the costs of manufacturing the goods as are the wages paid to the workmen employed in running the machinery.

It should therefore be perfectly clear that, if this deterioration in value is not allowed for in arriving at the profits, it will naturally result in the profits being overstated, and not only that: the distribution of the whole of the profits by way of dividend, etc., will mean that a proportion of the capital of the business has been returned to the proprietors. To state the case in another way: where a business is making profits, the result is that there is an increase in the net assets, because if a credit balance is shown in the Profit and Loss account the assets must either have been increased by the same amount or the liabilities reduced correspondingly. If in the making of these profits certain of the assets have deteriorated in value, there must be retained in the business sufficient of the increased assets to make good this decrease in value, otherwise the capital of the business is not preserved intact.

Perhaps this statement may be made clearer by an illustration, and the illustration will be made as simple as possible. Suppose that the following balance-sheet sets out the position of the business at the beginning of the year, there being no outside liabilities and the assets consist solely of cash and machinery:—

BALANCE SHEET, as at 1st January, 1920.

LIABILITIES.		ASSETS.	
Capital	£12,000	Cash	. £2,000
		Machinery	10,000
	£12,000		£12,000

At the end of the year it is found that the business has made a profit of £2000, and as the whole of the business for the year has been conducted on a cash basis, the cash balance must have increased to £4000. Suppose, now, that the whole of this profit is distributed amongst the shareholders by way of dividend; the cash balance will be reduced again to £2000 and the credit balance in Profit and Loss account wiped out, but no provision has been made for depreciation in the value of the machinery, which has been used in earning the profits. The machinery still stands in the books at £10,000, but it is now worth only, say, £9000. The actual position is, therefore, that £1000 of the capital has been returned to the shareholders seeing that the actual value of the assets now in the business equals only £11,000.

Suppose, however, that the directors of this company are alive to the necessity of providing for depreciation, and they

debit £1000 to Profit and Loss account, reducing the balance of Machinery account to £9000. The position at the end of the year would be as follows:—

BALANCE SHEET, as at 31st December, 1920.

LIABILITIES.		ASSETS.	
Capital	£12,000	Cash	£4,000
Profit and Loss A/c.	1,000	Machinery	9,000
	£13,000		£13,000

The amount standing to credit of Profit and Loss is distributed as a dividend amongst the shareholders, and this of course reduces the balance of cash to £3000. The actual value of the assets under these circumstances now equals that at the beginning of the year, because although the machinery has reduced in value to the extent of £1000, there has been retained in the business an amount out of the increase in cash sufficient to make good that depreciation, and the original capital has thus been kept intact. It is hardly necessary to mention that it would be practically impossible for a business to be conducted on such a strictly cash basis as that illustrated above, so that there are generally numerous accounts representing assets and liabilities appearing in the balance-sheet. Where provision is made out of profits for depreciation it cannot always be said that this provision is represented by an increase in the cash balance. The amount representing this provision may in the meantime have been utilised for other purposes in the business, and will so be represented by an increase in any one or more of the assets, or, it may be, by a reduction of the liabilities; but the fact nevertheless remains that where provision is made for depreciation out of profits it results in the retention in the business of assets of some kind or other to make good the diminution in value of those assets which have depreciated.

As a corollary of the above, if depreciation is not made good out of profits, when the worn-out assets require to be renewed it will in most cases necessitate the introduction of further capital into the business. Using again the illustration previously given, it is clear that if no provision has been made there will still be a balance of £10,000 in machinery account, even when the machinery is worn out and to all intents and purposes valueless. As the whole of the increase in cash each year has been returned to the shareholders by way of dividend there will not be sufficient cash in the business to purchase new machinery, and if the proprietors require to continue their business they will have to bring in additional capital to make the purchase.

Care should be taken to distinguish between depreciation and the cost of repairs. It will not be disputed that revenue must bear the cost of maintaining an asset in a working condition, and repairs must be effected in order to enable the machinery to be run at all. The effect of repairing an asset, however, is merely to put the asset back to the condition it was in before the necessity for the repairs arose, and no matter how thoroughly these repairs may be carried out they will not prevent the gradual deterioration of the asset as a whole, and the time must eventually arrive when the asset will be, practically speaking, valueless. As already explained, it is this general deterioration in value to which is given the name of depreciation.

Depreciation of assets may be caused by—

(a) Wear and Tear.—This is the depreciation occasioned by the active working of an asset in the endeavor to earn profits; the most familiar illustration being wear and tear occasioned by the use of machinery or office furniture.

(b) Effluxion of Time.—E.g., the regular diminution in value of a leasehold property from year to year.

(c) Obsolescence.—In the case of machinery, in addition to providing for depreciation arising from wear and tear, the risk of the machinery becoming obsolete before it is worn out must be taken into account in calculating the percentage to be written off each year. That this is a very real factor, which must not be overlooked in arriving at the amount of the annual charge, cannot be disputed, but it must be admitted that it is very difficult to estimate in any way accurately. Some classes of machinery are more liable to this risk than others, and practical experience in the particular class of machinery may be of assistance in enabling a satisfactory estimate of the provision required under this heading.

There is apt to be some confusion between depreciation and fluctuation. The latter is a variation in the value of an asset due to circumstances outside the business altogether, which may in the case of a fixed asset be ignored from a bookkeeping point of view. For example, a manufacturer instals machinery which costs him £1000. A little later the duty is taken off that particular class of machinery, and he can now get the same machinery for £900. It is not necessary for him to take any notice in his books of the diminution in the market value of this machinery; so long as he does not bring the asset into his books at more than cost price, and makes such provision for depreciation that the asset will be written out of his books by the time it is worn out this is all that is

required. Similarly any increase or decrease in the value of freehold premises occasioned by a fluctuation in the market value of the land on which premises are erected should be ignored. It might be advisable, however, if it is thought that a fluctuation downwards is likely to be permanent, to make some provision for this (although there is apparently no legal necessity to do so in the case of fixed assets), but it would be totally incorrect from an accountancy point of view to write up the book value of fixed assets in the event of a favorable fluctuation.

Having now seen how important it is that provision for depreciation should be made, it is now necessary to consider, firstly, the extent of the provision, and, secondly the different methods of making the provision. In the first place it is obvious that all assets are not required to be written completely out of the books by the time they cease to be of real use to the business. Such assets as machinery, furniture, &c., will have some residual value, and it is only necessary to write them down to their estimated residual values during their time of usefulness. In arriving at the amount to be provided for each year in respect of any asset, the following elements should be taken into consideration:—

(a) The cost of the asset.

(b) The lifetime of the asset.

(c) Its break-up value.

In the second place, the method of providing for depreciation which it is advisable to adopt in any particular case will, of course, depend upon the class of the asset, but it is thought that a careful perusal of the various systems described below, together with the illustrations attached, will enable the reader to decide without difficulty the proper method to be adopted.

1. Fixed Instalment System.—Under this method a fixed proportion of the original cost of the asset is written off each year. This method is commonly adopted in the case of assets which require very little in the nature of repairs, and which do not necessitate the locking up of much capital, the most familiar illustration being office furniture. Suppose that furniture cost £220, and was estimated to last for ten years, the break-up value being reckoned at £20. Under this method Profit and Loss account would be debited with £20 each year and the furniture account credited, thus writing the account down to the residual value of the furniture in ten years' time.

2. The Reducing Instalment System.—Where this method is adopted, a fixed percentage is written off the reducing

balance each year, and it is clear that the charge against profits for depreciation will reduce gradually. As an illustration: Suppose it has been decided to write down machinery costing £1000 at the rate of 20 per cent. on the reducing balance each year. In the first year Profit and Loss account will be debited with £200 for depreciation. In the second year the charge against profits will equal only £160, and so on. This system of providing for depreciation is almost invariably used in the case of machinery, and there is a good reason why this should be so. The profit-earning capacity of the machinery will decrease to a certain extent as the machinery gets more worn, and it is only reasonable that in the years when the machinery is doing the greatest work the heaviest charges for depreciation should be made. Again, as the machinery gets older, the charges against profits for repairs will increase, and the decreased charge for depreciation will roughly compensate for this.

The general effect of this system is to apportion as evenly as possible the total charges for repairs and depreciation over the periodical accounts prepared during the lifetime of the asset.

3. Equation of Cost and Repairs.—If, as mentioned in describing the reducing instalment system, it is advisable in providing for depreciation to endeavor to make the total charges against profits in respect of the asset in question as even as possible, the present method will give the desired result, but as it depends for its accuracy on the question as to whether it is possible to calculate accurately beforehand the total cost of repairs throughout the lifetime of the asset, it is not often that this system will be found workable in actual practice. Under this method, in arriving at the charge to be made against each year's profits in respect of the asset, the estimated total cost of repairs is added to the original cost of the asset and a fixed amount is debited to Profit and Loss account each year throughout the lifetime of the asset to cover both depreciation and repairs. To give an illustration: Suppose that certain machinery cost £100 and the proprietor was able to ascertain from previous experience with that class of machinery that the total cost of the repairs during its lifetime would be about £50, the life of the machinery being reckoned at ten years. The sum of £15 (leaving out of consideration any break-up value) would be debited to Profit and Loss account each year, and of this amount £10 would be credited to Machinery account by way of depreciation, and £5 would be credited to a Repairs Reserve account. The cost of the repairs as they became necessary would be debited to the last mentioned account. At the end of ten years the Machinery account would be written out of the books, and

£50 would have been credited in all to the Repairs Reserve account. If the original calculation of the repairs happened to be in any way correct, the total debits to the Repairs Reserve account during the ten years would be just about £50, and this account would thus also be closed off, any small balance one way or the other being transferred to Profit and Loss account at the end of ten years. As already mentioned, the efficiency of this system depends entirely upon the accuracy of the preliminary estimate for repairs and such being the case this system could not be applied in actual practice except under very special circumstances.

4. Valuation Method.—This method necessitates a valuation of the assets each year, the idea being to find how much the assets have decreased in value during the year, the difference being written off to Profit and Loss account. An argument which is put forward in favor of this method is that the assets are stated in the books at their actual realisable values, and that the business will thus have an accurate statement of its position. It might be pointed out, however, that no balance-sheet purports to set out the assets of the business at their market valuations, but merely at the value of those assets to the business as a going concern and, provided sufficient depreciation is written off, this is all that can be reasonably required. The chief objections to this system are, firstly, that it makes the charges against profits for depreciation very uneven, and, secondly, it is impossible to eliminate fluctuation from the calculations, seeing that the basis of the valuation in each year will be the market value of the assets. As a method of providing for depreciation this system cannot, therefore, be recommended, but an occasional valuation may, under certain circumstances, be valuable as a check upon any other method of depreciation which has been adopted. If a manufacturer instals a certain class of machinery with which he has had no previous experience, the proper rate of depreciation on this machinery will be a matter of estimate, and it will be advisable in such a case to obtain the services of an expert occasionally to re-value the asset in order to ensure that the provision made is sufficient.

5. Annuity System.—This method of providing for depreciation is used almost exclusively in relation to leasehold property, and its object is to bring interest into account. Theoretically the value of leasehold property is the total amount of the annual rental for the number of years which the lease has to run, less interest on the rent which has been paid in advance. The second year's rent is paid, for instance, one year in advance, the third year's rent two years in advance, and so on. Seeing that the business has paid the rent in advance for a number of years ahead and that it has been

allowed as a deduction the interest on these payments in advance, it is only reasonable to bring such interest into account in the books.

Again, the matter may be looked at in another light. As the amount paid for leasehold premises is, in most cases, a fairly large sum, it necessitates the withdrawal of that amount from the ordinary channels of the business; the trading portion of the business is therefore handicapped to the extent of the amount so withdrawn, and the profits which it can earn are decreased proportionately. It is only proper to recoup that portion of the business for this withdrawal of assets, and the idea of the annuity system is to charge the lease with interest on the balance of the account from year to year and credit Profit and Loss account. As the leasehold property account will require to be written out of the books by the time the lease has expired, it is necessary seeing that the account will debited each year with the interest on its reducing balance, to ascertain what sum must be debited to Profit and Loss account each year and credited to the Leasehold Property account so that the original cost of the lease plus the interest on the reducing balance will be written off during the currency of the lease.

This is obviously a fairly complicated calculation, and reference would have to be made to depreciation tables to enable the amount to be arrived at. The annual charge against profits for depreciation remains a fixed sum and the debit to Leasehold Property account for interest will gradually get less, seeing that the balance of the account will reduce each year. The following illustration should make the procedure perfectly clear:—

> A merchant purchases a lease of premises for six years for an amount of £1500, money being worth, say 5 per cent. to him. The amount paid for the lease will be debited to Leasehold Property account. At the end of the first year this account will be debited with interest at 5 per cent., viz., £75, and Interest account credited. Profit and Loss account will then be debited with £295 10s. for depreciation, and the amount written off Leasehold Property account. In the second year similar procedure is followed, the amount of the interest being reduced to £63 19s. 6d, the amount of depreciation remaining the same as in the first year.

LEASEHOLD ACCOUNT.

1919.			1919.		
			Dec. 31	P/L A/c.	
Jan. 1	To Cash	£1,500 0 0		Depreciation.. .. .	£295 10 0
Dec. 31	„ Interest ..	75 0 0		Balance	1,279 10 0
		£1,575 0 0			£1,575 0 0
1920.			1920.		
Jan. 1	To Balance ..	£1,279 10 0	Dec. 31	By P/L A/c.	
Dec. 31	„ Interest ..	63 19 6		Depreciation..	£295 10 0
				Balance	1,047 19 6
		£1,343 9 6			£1,343 9 6
1921.					
Jan. 1	To Balance ..	£1,047 19 6			

6. Sinking Fund System.—It has already been explained that where depreciation is provided for out of profits, assets are left in the business to make good the decrease in the assets which have depreciated, and this enables such assets to be replaced without necessitating the introduction of fresh capital into the business. Where the cost of replacing the worn-out assets is not excessive the withdrawal of sufficient cash from the business for this purpose is not a serious matter, and no special provision is required; but where a large sum of money is required for the replacement of one of these assets it is clear that the sudden withdrawal of such a sum from the floating assets would seriously affect the resources of the business, and it is therefore necessary that some means should be adopted of providing the necessary cash without causing the trading portion of the business to be crippled in the manner indicated. Again, the assets which have been left in the business to make good the depreciation of the fixed assets may not be of a readily realisable nature, and a forced sale of these to provide the necessary cash would almost invariably result in a loss being sustained.

The system usually adopted to enable the required amount of cash to be forthcoming without the serious effects referred to above is that known as the Sinking Fund System. The method of setting up a Sinking Fund and the necessary entries in the books are dealt with fully in a later chapter, to which reference may be made. It might be mentioned here, however, that the system provides for the investment outside the business in liquid securities of the amount written off each year for depreciation in respect of the asset. Interest on the amount from time to time invested is credited to the Sinking Fund account, so that the annual charge for depreciation would be somewhat less than that ordinarily required.

7. **Maintenance out of Revenue.**—Strictly speaking this can hardly be classed as a method of providing for depreciation, although, as will be seen, the effect is much the same. There are certain assets which, although they depreciate in value, by their nature render it practically impossible to estimate the amount of depreciation which has occurred. An illustration of this class would be the loose tools used in a manufacturing business. It is usual, therefore, to treat the cost of the original equipment as capital expenditure and to maintain the loose tools in the same state of efficiency out of revenue. In other words, the original cost will be debited to a Loose Tools account and the cost of replacing any of these tools will be charged to Profit and Loss account. It might be mentioned here that in some cases the re-valuation method is used with regard to this class of asset, and this method certainly has the advantage of enabling a valuable check to be obtained periodically on the quantity of loose tools in hand.

Depreciation in Case of Companies Formed to Work Wasting Assets.

In the light of the foregoing it would seem almost a paradox to state that in certain concerns it is not necessary nor even advisable to make provision for depreciation.

As has already been explained, the chief reason why it is necessary that the provision should be made is that the concern should be enabled to conduct its business permanently without requiring further capital to be brought in to replace the wasting assets as and when such replacements become necessary. The same position does not arise in the case of those concerns which have no intention of conducting a business of a permanent nature. A company may be formed for the purpose of conducting a single venture, which, by its nature, cannot possibly last for more than a few years, and when the objects for which the company was formed have been finally achieved the company must of necessity be wound up and any surplus money returned to the shareholders.

Take the case of a company formed to work a timber right; the bulk of the original capital subscribed by the shareholders will be used for the purchase of this right, and it is apparent that as the timber is cut and sold the right will become less valuable each year. Applying accountancy principles as in ordinary commercial accounts it will clearly be wrong for the company to distribute as dividend amongst its shareholders the excess of its income over expenditure, without first providing for the depreciation in the value of the

timber right due to the fact that a certain proportion of the timber has been cut and sold. Unless the company charges to Profit and Loss account each year the cost of the timber sold and so retains an equal amount out of the profits in order to make good this depreciation in value, it will be seen that, by the time the timber is exhausted, the company will have returned the whole of its capital to its shareholders, less, of course, the cost of any plant, &c., which it has found necessary to purchase. But, could it be stated that the company was, from a financial standpoint, making a mistake in doing this? It does not require any capital to replace the asset which is now exhausted, seeing that the object for which the company was originally formed no longer exists. What it has done, in effect, amounts to this: It has returned the capital to the shareholders from year to year along with its actual profits, by way of dividends instead of keeping back out of each year's profits a due proportion of the original capital, and returning it in a lump sum to the shareholders when the timber is exhausted. Again, it is apparent that if depreciation had been provided for each year a considerable sum of money would have been left in the hands of the directors, and this money must have either remained idle or have been invested in outside securities.

Now, a person investing money in a venture of this kind, whilst perhaps being satisfied with the ability of the directors to conduct a timber business on sound lines, might not have an equally high opinion of the directors as financiers, and such being the case it is no doubt better that the directors should return the capital to the shareholders in the way indicated, allowing them to apportion each dividend received between capital and revenue and to do their own investing. It is clear, therefore, that, from a commercial point of view, the best course to adopt in a concern of this particular nature is that indicated in the illustration supplied, but the next question which arises is whether a company registered under the Companies Acts can legally return capital to its shareholders in this way, seeing that the Companies Acts in the various States provide that a Company cannot reduce its capital by returning cash to shareholders without first obtaining the consent of the court.

This point was decided in an English case, Lee v. The Neuchatel Asphalte Co., Ltd. This company was formed for the purpose of extracting bituminous rock from the mine acquired by the company, and, briefly, the point which gave rise to the action was as to whether the directors could distribute as a dividend the excess of income over expenditure without first providing for depreciation in the value of the mine occasioned by the extraction and sale of the products of

the mine. The following extracts from the judgment delivered by Lord Justice Lindley in the Court of Appeal, will it is thought, suffice to make the legal position of a company of this class clear. Lord Justice Lindley said:—

The actual point to be decided is an easy one, but the difficulty arises from the fact that the court is urged to lay down general principles of law, which, if adopted, would paralyse the whole trade of the country. The respondent company was formed for the purpose of working certain asphalte mines of which it had got a lease. It was quite obvious that with respect to such a property every ton of stuff got out of that which was bought with capital represented a portion of capital. It was said that a division of the profit arising from the sale of such was a return of capital. If that was so, it is not, at all events, such a return of capital as is prohibited by the Company Acts. There is nothing in any of the Company Acts prohibiting anything of the kind. The only provisions in those Acts relating to capital were sections 8, 12, 26, 28, and 34 in the Act of 1862; sections 9-20 in the Act of 1867; and sections 3-5 in the amending Act of 1877 (English Acts). There was nothing in any of those sections as to the mode of payment of profits or dividends. It has been very judiciously and properly left to the commercial world to settle how the accounts were to be kept. The Acts do not say what expenses are to be charged to capital account and what to revenue account. Such matters were left to the shareholders; they may or may not have a sinking fund or a deterioration fund; the articles of association may or may not contain regulations on these matters; if they do, the regulations must be observed; if they do not, the shareholders can do as they like so long as they do not misapply their capital.

In this case one of the articles provides that the directors shall not be bound to reserve moneys for the renewal or replacing of any lease or of the company's interest in any property or concession. Mr. Rigby says that that provision in the articles is contrary to law. Now, the Companies Act, 1862, does not require the capital to be made up, if lost, and it does not prohibit payment of dividends so long as the assets are of less value than the capital called up, nor does it make loss of capital a ground for winding-up. The argument seems to be founded on the notion that the company is somehow a debtor to its capital; that may be a convenient notion from an accountant's point of view, but has nothing to do with law. Though the Acts do not say so, there are general principles of law which prohibit the capital of a company being applied for purposes other than those mentioned in the memorandum of association, and, further, if any of the purposes mentioned in the memorandum of association are expressly or impliedly forbidden by the statutes, then the capital of the company cannot be applied for those purposes (see Trevor v. Whitworth, 12 App. Cas., 409). But if a company is formed to acquire or work property of a wasting nature, e.g., a mine, quarry, or patent, the capital expended in acquiring the property may be regarded as sunk and gone, and if the company retains assets sufficient to pay its debts, any excess of money obtained by working the property over the cost of working it may be divided among the shareholders; and this is true, although some portion of the property itself is sold, and in one sense the capital is thereby diminished. If it is said that such a course involves payment of dividends out of capital, the answer is that the Acts nowhere prohibit such a payment as is here supposed.

The proposition that it is ultra vires to pay dividends out of capital is very apt to mislead, and must not be understood in such a way as to prohibit honest tradings. It is not true, as an abstract proposition, that no dividends can be properly declared out of moneys arising from

the sale of property bought by capital. But it is true that if the working expenses exceed the current gains, profits cannot be divided, and that if in such a case capital is divided, and paid away as dividend, the capital is misapplied, and the directors implicated in the misapplication may be compelled to make good the amount misapplied. This was the case in Rance's case (L.R., 6 Ch., App. 104); in the Oxford Benefit Building Society's case (L.R., 35 Ch., D., 502); in Leeds, &c., Investment Co. v. Shepherd (L.R., 36 Ch., D., 787); and in Stringer's case (L.R., 4 Ch., App., 475). In the present case the articles say that there need be no sinking fund; consequently, capital lost need not be replaced; nor, having regard to these articles, need any loss of capital by removal of bituminous earth appear in the profit and loss account of the working of a company's property. Our decision, therefore, in this case is quite consistent with the two cases before the late Master of the Rolls of Davison v. Gillies and Dent v. London Tramways Company.

The Legal Aspect of Depreciation.—In dealing with this portion of the subject it might be as well to point out that it will be touched upon only from the standpoint of a company registered under the Companies Acts. In so far as private traders and partnership businesses are concerned the question as to whether depreciation is to be provided for before the ascertainment and withdrawal of the profits is purely one for the decision of the proprietors, as the law is not in any way concerned with the internal management of private businesses of this nature, so long as the proprietors do nothing which will tend to defeat their creditors.

Coming now to the question as to whether or not it is necessary for a limited company to make provision for depreciation before declaring a dividend, or in other words, whether it is necessary to make good a loss in assets out of the excess of income over expenditure before distributing the excess amongst shareholders, it must be admitted that the exact position is not clear. The decision given by the Court in the case quoted above has since been followed in a number of cases, notably in Bolton v. Natal Land, &c., Co., Ltd., Verner v. The General, &c., Investment Trust, Ltd. Wilmer v. McNamara & Co., Ltd. In Verner v. The General, &c., Investment Trust, Ltd., the Court of Appeal suggested as a test of the propriety of making a distribution of profits, that if the fixed assets were lost, the value of a company's circulating assets must be kept up. From the judgment in Bond v. Barrow & Co., it would appear that the Appeal Court only intended to lay down this test as a guide, but nothing more, as will be seen from the following extracts from the judgment of Mr. Justice Farwell in that case:—

It has been pointed out by Lord Justice Lindley, in Lee v. The Neuchatel Asphalte Co., Ltd., that there is nothing in the statutes requiring the company to keep up the value of its capital assets to the level of its nominal capital. The requirement is merely negative; that dividends shall not be paid out of capital, and the balance to the credit

of profit and loss account does not automatically become part of the capital assets, because the value of the actual capital assets has depreciated to an amount equal to or exceeding such balance. The real question for determination, therefore is whether there are profits available for distribution, and this is to be answered according to the circumstances of each particular case, the nature of the company, and the evidence of competent witnesses. There is no single definition of the word "profits" which will fit all cases. . . . See, for instance, Lord Lindley's judgment in Verner's case, where he says:—"Perhaps the shortest way of expressing the distinction which I am endeavoring to explain is to say that fixed capital may be sunk and lost and yet the excess of current receipts over current payments may be divided, but that floating or circulating capital must be kept up." I do not understand his Lordship to be laying down a general and universal rule that in every other company fixed capital may be sunk and lost, but that there are companies in which that may be the case. All the authorities, however, agree, I think, that circulating capital must be kept up. . . . The plaintiffs really relied on Lee v. The Neuchatel Asphalte Co., Ltd., as an authority for this proposition as a universal negative, viz., "that no company owning wasting property need ever create a depreciation fund." In my opinion that is not the true result of the decision. It must be remembered that in that case there had been no loss of assets. The company's assets were larger than at its formation, and the court decided nothing more than the particular proposition that some companies with wasting assets need have no depreciation fund. For instance, I cannot think that it would be right for the defendant company to purchase out of capital the last two or three years of a valuable patent and distribute the whole of the receipts in respect thereof as profits without replacing the capital expended in purchase. It is for the court to determine in each case on evidence whether the particular company ought, or ought not, to have such a fund.

It will be seen, therefore, that it would not be safe for a company to rely on the general statement that a company is under no necessity to make good out of profits a loss on fixed assets. The present legal position is unsatisfactory, and it is certain that the last word on the subject has yet to be said. The position as it appears to the writer might be summarised as folows:—

(a) The Court will not concern itself with matters affecting the internal management of a company.

(b) The Court will, however, see that the company makes no direct return of capital to its shareholders except as provided for in the Companies Acts, and will see also that the rights of creditors are not prejudiced.

(c) Subject to any provision to the contrary in the company's articles of association a company is under no obligation before distributing profits to make good any loss on fixed assets. It must, however, provide for any loss on floating assets.

(d) It is for the Court to determine whether any particular company ought to have provided a fund to meet depreciation or loss on wasting assets.

(e) Where a company is formed for the purpose of working a wasting asset it is not necessary for the company to make good out of the excess of its income over expenditure the loss of capital occasioned by working that asset before the distribution of profits.

It might be mentioned that in the New Zealand Companies Act, 1908, the principle laid down in Lee v. The Neuchatel Asphalte Co. has received legislative recognition. This Act provides that where a company is formed to work a mine, patent, timber right, etc., or other wasting asset, it is not necessary for the company to make good a loss of capital caused by working such asset before distributing profits, provided the auditor of the company certifies in a Balance Sheet made up to a date not more than three months prior to the date of his certificate that the company has sufficient assets to pay its creditors.

APPRECIATION — WRITING UP ASSETS.—The question sometimes arises as to whether a company can legally write up the value of a fixed asset and utilise the amount by which the asset is written up for the purpose of paying dividends. To put the matter in a concrete form: Suppose a company has its business premises standing in the books at £10,000. A conservative valuation sets down the present value, owing to an increase in the market value of the land, at £25,000. Can the company legally write up the book value of the asset to £25,000, crediting £15,000 to Profit and Loss account and pay a dividend out of this amount?

Setting on one side for the time being the point as to whether such a procedure is or is not legal it will hardly be disputed that such a course would be totally opposed to all principles of sound finance for the following reasons:—

(a) The profit would be purely an estimated one.

(b) The working capital of the concern would be depleted to the extent of the dividend so paid and such dividend would amount practically to a return of capital to the shareholders.

Take now another case which may seem at first sight to be on all fours with that cited above. A company has created a secret reserve by writing down its business premises each year out of profits to an extent greatly in excess of the actual depreciation which has occurred. Can it write up the value of the buildings by the amount of the depreciation over-provided, and use such amount for dividend purposes?

The position is entirely different from that cited in the first case. An over-provision for depreciation results in the retention in the business of ascertained profits which might quite properly have been distributed amongst the shareholders from year to year. The proposal above mentioned would really amount to a distribution in the current year of profits which the company was justly entitled to distribute in previous years.

The legal position, as is commonly the case where the law has anything to do with questions of account, is brimful of difficulty. The following summary, however, sets out what appears, in the opinion of the writer, to be the result of the decisions in the leading cases:—

(a) A company cannot write up the value of a fixed asset and distribute the estimated profit by way of dividend amongst its shareholders.

(b) Even where a fixed asset is sold at a price in excess of the amount at which it stands in the books such a profit cannot be distributed amongst its shareholders in the form of a dividend unless:—

(1) Such a course is authorised by the articles and

(2) The company takes into account any other losses which may have occurred, and for this purpose it will be necessary to obtain a revaluation of all the other assets. See Lubbock v. British Bank of South America 1892, 2 Ch. 198; Verner v. General and Commercial Trust 1894, 2 Ch. 268; Foster v. The New Trinidad Lake Asphalt Co., Ltd., 1901, 1 Ch. 208.

It should be noted that the above position only applies to the case of a company writing up or realising fixed assets where the estimated or realised profit is due to market fluctuations in value. There is nothing legally or economically to prevent a company which has over-depreciated any or all of its fixed assets and so created a secret reserve from writing up the value of such assets to the extent of the excess depreciation provided and distributing such amount by way of dividend. See Mills v. Northern Railway of Buenos Ayres Co., 1870, 5 Ch. 621, and Bishop v. Smyrna and Cassaba Railway Co., 1895, 2 Ch. 596.

RESERVES AND SINKING FUNDS.—Whilst provisions of this nature properly come under the heading of adjustments to be made on balance day, this subject is thought to be of sufficient importance to be dealt with separately in a later chapter.

CHAPTER IV.

PARTNERSHIP.

Definition.—Partnership is the relation existing between persons carrying on a business in common with a view of profit.

The law governing this relationship is set out in the Partnership Acts of the various States. All associations of persons together to carry on a business with a view of earning profits do not come under the provisions of these Acts, as the term "partnership" does not cover, for instance, the relation which exists between members of companies registered under the Companies Acts or of registered societies. Considerable differences exist between a partnership and a company. Each member of a partnership is entitled to take part in the management of the business, and every act done or contract entered into by one partner within the scope of the business is binding on the remaining partners. In the case of a company the management of the business is vested in the directors, and individual shareholders are not entitled to any voice in the management other than by voting at general meetings. A partnership depends for its existence upon the mutual confidence and trust of its members, but this relation need not necessarily exist between the members of a limited company. The Companies Acts of the various States provide that in the case of a trading partnership not more than twenty persons (in New Zealand ten persons), or in the case of a banking concern not more than ten persons, shall carry on business together unless registered under the Companies Act.

Numerous other differences exist, but it will suffice perhaps if two of the principal ones are mentioned.

In the first place each member of a partnership may be made liable for the whole of the debts of the firm, whereas a member of a limited company cannot be made liable in the case of a joint stock company, for any amount exceeding the amount unpaid on the shares held by him, or, in the case of a guarantee company, for more than the amount which he undertakes to contribute towards the assets of the company in the event of winding up.

Secondly, upon the death of a member of a partnership, in the absence of any agreement to the contrary, the partnership is dissolved; but the death of a member of a company has no effect on the company. It merely results in the substitution of a new shareholder for the old.

In each State (with the exception of New Zealand), a Firms Act provides that every firm carrying on business in such State under a firm name which does not consist of the full or the usual names of all the partners without any addition, and every person carrying on business or having any place of business in such State under any firm name consisting of or containing any name or addition other than the full and usual name of that person, shall register in the manner directed by the Act. This registration consists of filing a statement at the office of the Registrar-General, containing the following information:—

(a) The firm name;

(b) The nature of the business;

(c) The place or places where the business is carried on, or is intended to be carried on;

(d) The full names, usual residence, and usual occupation (if any), of the person or persons carrying on or intending to carry on the business;

(e) If the business is commenced after the commencing of the Act the date of the commencement of the business.

In addition, when any change occurs in the constitution of a registered firm, the members of the firm as reconstructed shall notify the Registrar-General within one month thereafter.

The terms upon which a partnership is entered into by the members are determined by agreement between the partners. This agreement may be by deed, in writing not under seal, verbal, or even implied from the conduct of the partners, and in some cases persons who had no intention of incurring liability as partners may find themselves liable as such to creditors of a firm. Although numbers of partnerships are entered into merely under a verbal agreement, it is of the greatest importance that the agreement should be in writing as, where there is no ascertainable agreement between the partners, the provisions of the Partnership Act apply, and persons entering into this important relationship should make

themselves aware of the contents of the Act, so that its provisions, where unsuitable, may be excluded by a definite agreement between themselves.

The preparation of the partnership agreement should be entrusted to a solicitor, as it is important that its provisions should be so drawn up as to leave no loophole for dispute at a later date. It is also advisable that a competent public accountant should consult with the solicitor with regard to provisions relating to the accounts and the mode of settlement between the partners. The various matters which require attention in such an agreement will, of course, depend a good deal upon the arrangements between the partners, but the following points should always be brought up for consideration before the actual provisions of the agreement are decided upon:—

(1) **The Names of the Partners and the Firm Name.** As already pointed out, where the firm name does not include the whole of the names of the partners, or includes any name or addition to the names of the partners, the firm, if carrying on business in any State except New Zealand, will require registration under the Firms Act.

(2) **The Nature of the Business.** It is important that the exact scope of the operations of the business should be agreed upon beforehand between the partners and included in the agreement, as no change in the nature of the business can be made without the approval of the whole of the partners.

(3) **Term of the Partnership.** Where no fixed term is mentioned in the agreement for the duration of the partnership, this constitutes what is known as a "partnership at will," and any partner can, by giving notice to the remaining partners, retire when it pleases him. It will, therefore, be generally found advisable to state some fixed period in the agreement, say, three to five years, and when the term has expired the partnership if desired can be renewed for a further fixed period. If, at the expiration of the fixed period, no new agreement is entered into, and the partners continue to carry on business together, the terms of the old agreement will apply, but the partnership becomes a partnership at will, and a partner can, by giving notice, retire at any time.

(4) **Capital.** The agreement should state the amount of capital to be introduced by each partner. Legally a partner's capital is the amount which he introduces into the business at its commencement, or upon his joining the firm; but the capital may be altered from time to time if partners

so agree. It is the practice in most firms to carry any excess of a partner's share of profits over his drawings to the credit of his Capital account each year. This practice is found to be convenient, and it is advisable, therefore, to include a provision in the agreement that the amount of each partner's capital shall be the amount standing at the credit of his Capital account at the beginning of each financial year.

(5) **Accounts.** Provision should be made that the accounts are to be kept by double-entry, and that once at least in every year a Profit and Loss account and Balance Sheet must be prepared in order to show the position of the firm; the accounts to be audited and certified to by a competent public accountant.

(6) **Authority of Partners.** In the absence of any agreement to the contrary each partner is entitled to take an equal share in the management of the business. It is usual to have some provision in the agreement modifying this arrangement. In many cases the general management of the business is vested in the senior partner, and the duties of the remaining partners are defined in general terms in the agreement. A clause to this effect would operate to prevent disputes on the every-day matters which call for immediate decision. Matters affecting the policy of the business should, of course, be referred to all the partners.

(7) **Division of Profits.** The Partnership Act provides that, in the absence of other agreement, profits are to be divided equally between the partners, and this is so even where the amounts of capital subscribed by the partners are unequal. If, therefore, it is desired that profits are to be shared other than equally, express provision should be made in the agreement to that effect.

(8) **Partners' Drawings.** In the absence of an agreement to the contrary partners are not entitled to draw in anticipation of their profits, and provision should be made by a clause in the agreement if it is desired that the partners should have the power to do this.

(9) **Partners' Salaries.** Partners are not entitled to remuneration for their services, and any decision that salaries are to be paid to the partners should be included in the agreement.

(10) **Interest on Capital.** In the absence of an agreement to the contrary, partners are not entitled to interest on their capital before the ascertainment of profits. The words "before the ascertainment of profits" apparently do not carry

their obvious meaning in this connection. They do not mean, as might be supposed, that a partner is not entitled to interest on his capital before it is ascertained that there are profits, but that a partner is not entitled to have interest on his capital charged against the Profit and Loss account before the ascertainment of his share of the profits. If, after the ascertainment of his profits, he chooses to call so much of his share interest and so much profit (suiting himself as to the exact proportion) he is doing no injustice to anyone. The intention of the Act in this connection would have been much clearer if it had simply stated that a partner is not entitled to interest on his capital in the absence of any agreement to the contrary, as that exactly defines the position.

(11) **Interest on Advances.** Where a partner brings into the firm any amount in addition to the capital which he agreed to introduce, he is entitled, in the absence of any agreement to the contrary, to interest on this advance at the rate of 7 per cent. per annum (in New Zealand, 5 per cent.; West Australia, Tasmania, and Queensland, 6 per cent.).

(12) **Interest on Drawings.** Where a clause is inserted in the agreement that partners are to receive interest on their capital, it is sometimes provided in addition that they shall be charged with interest on their drawings. This is not usual, and it is difficult to see the reason why such a charge should be made where the business is running at a profit and it is clear that the partner is not over-drawing his share of the profits.

(13) **Death or Bankruptcy of Partner.** It is highly important that provision should be made in the agreement as to the course to be followed upon the death or bankruptcy of any one or more of the partners. The Partnership Act provides, that, subject to an agreement to the contrary between the partners, the partnership is dissolved by the death or bankruptcy of any partner. The representative of the deceased partner, or the trustee or assignee of the bankrupt partner, can, therefore, require the business to be sold in order to enable him to withdraw such partner's interest in the business. As it is not always desirable that events of this nature should determine the partnership altogether, provision should be made in the agreement that, in the event of the death or bankruptcy of a partner, the remaining partners shall have the right to take over the business upon paying to the representatives of the deceased or bankrupt partner the amount of his interest in the business at date of death or bankruptcy, as the case may be.

(14) **Retirement of Partner.** The Partnership Act similarly provides that, in the case of a partnership at will, any partner may, by giving notice to the other or others of his intention to retire, dissolve the partnership and such retiring partner can, in the absence of an agreement to the contrary, require the business to be sold. A clause similar to the one mentioned in the last preceding paragraph should therefore be included, setting out the course to be followed upon the retirement of a partner.

(15) **Amount to be Paid to an Outgoing Partner.** If the remaining partners are to continue the business upon the death, bankruptcy, or retirement of a partner, provision should be made in the agreement as to how the amount of such partner's interest in the business is to be arrived at. His interest in the business will, generally speaking, be composed of :—

(a) His capital.

(b) His share of the profits up to date of death, etc.

(c) His share of the goodwill.

Provisions such as are hinted at briefly below would, in most cases, be found suitable.

(a) **In Respect of Capital.**. The representative of a deceased partner or a retiring partner (retiring partner including bankrupt partner) is to receive the amount standing at the credit of such partner's Capital account at the beginning of the financial period in which he ceased to be a member, less any drawings made by him in that period.

(b) **In Respect of Profits.** It will generally be found that the most equitable method of settling the outgoing partner's share of the profits for the year in which he dies or retires, is to provide for the payment of a proportion of his average profits for the last three completed years calculated according to the number of days over which his membership extends during the year in question.

(c) **Goodwill.** A deceased partner's representative or a retiring partner is entitled to a share of the value of the goodwill at date of death or retirement and, as this valuation is a most fruitful source of dispute, provision should be contained in the agreement as to the basis upon which the goodwill is to be estimated. The agreement might provide

for example, that the goodwill of the firm shall upon the death or retirement of a partner be reckoned as worth two years' purchase of the average profits for the last three preceding years, and the outgoing partner shall be entitled to his share of the total value of the goodwill according to the proportion in which he shared profits.

(16.) **Restrictions on Retiring Partner.**—It is often found advisable to include in the agreement a provision that a partner retiring from the firm must not compete in business with his late firm within a given time or area.

(17.) **Arbitration.**—It is also usual to provide that any disputes on important matters affecting the policy of the firm are to be referred to an arbitrator for settlement. It might be noted that disputes on ordinary matters arising out of the conduct of the business are to be decided by a majority of the partners.

WHO ARE PARTNERS.—Seeing that a partner has such wide powers within the scope of the partnership business, and that each partner may be made liable for the whole of the debts of the firm, it is often important to know exactly who are the partners of a business, and this point is not always easy to decide. It might be thought that a sure test is to ascertain if the person in question has capital invested in the business, but, seeing that it is quite possible, and not uncommon, for a person to be a partner in a business and yet have no capital in that business, this test will not of itself enable a decision to be arrived at. Perhaps the best test is to ascertain whether the person in question takes a share of the profits, as the Partnership Act provides that the receipt by a person of a share of the profits of a business is prima facie evidence that he is a partner in the business. But the Act provides further that the mere fact that a person takes a share of the profits does not of itself create him a partner in the business, and it mentions certain specific instances in which persons may take a share of the profits without making themselves liable as partners.

(a) A person may receive payment of a debt out of accruing profits of a business.

(b) An employee or agent may be remunerated by a share of the profits.

(c) A widow or child of a deceased partner may receive a portion of the profits by way of annuity.

(d) A person may make a loan to a firm and receive a rate of interest varying with the profits, provided

the contract is in writing and signed by all the parties thereto.

(e) A person may receive a portion of the profits of a business as payment for the goodwill of the business sold by him to the firm.

And in each case the mere fact that the person receives such share of the profits will not of itself render him or her liable as a partner.

It might be mentioned in passing that, in the cases mentioned in (d) and (e) above, if the person or firm to whom the loan is made or who has purchased the goodwill in consideration of a share of the profits, be adjudged bankrupt or enter into an arrangement to pay creditors less than 20/ in the £, the person making the loan or selling the goodwill, as the case may be, will rank as a deferred creditor—that is, he will not be entitled to receive anything until all other creditors have been paid in full.

The word "profits" as stated under this heading means net profits. The sharing of gross returns does not of itself create a partnership.

In deciding whether a partnership does or does not exist in any particular case, the court will take into consideration the whole of the circumstances. The fact that a person receives a share of the profits is evidence of partnership; but it will not be viewed as conclusive evidence unless there are other facts to support it.

Partnership by Estoppel. A person may render himself liable to the creditors of a firm as a partner without, in fact, being a partner of the firm, under the doctrine of "holding out." Anyone representing himself as being the partner of a firm and so inducing persons to give credit to the firm on the strength of such representation, will be liable to such persons as if he actually were a partner of the firm. He is what is known as a partner by estoppel; i.e., he is stopped by his conduct from denying that he is a member of the firm.

The Relation of Partners. (a) To one another.

This may be governed almost wholly by the terms of the partnership agreement; e.g., one partner may agree to do the whole of the work in consideration of another partner finding all the capital; or the management of the business may be vested, so far as the partners are concerned, in one partner only. There, is however, an implied term in every partnership agreement that partners must act as between themselves

with the utmost good faith. Each partner is entitled to be informed of anything of importance taking place and must, in turn, inform the other partners of anything they ought to know. With regard to accounts, the Partnership Act provides that partners are bound to render true accounts and full information of all things affecting the partnership to any partner or his legal representatives. Every partner must account to the firm for any benefit derived by him from any transaction concerning the partnership, or for any use by him of the partnership property, name or business connection. Also, if a partner, without the consent of the other partners, carries on a business of the same nature as and competing with that of the firm, he must account for and pay over to the firm all profits made in that business.

(b) To Outsiders.

As already pointed out, each partner is the agent of the firm and of his other partners for the purposes of the business of the partnership, and every contract entered into by him within the scope of the business of the firm is binding on the firm and partners. Other persons doing business with the firm are entitled to rely on this fact, unless they have had express notice to the contrary. The partners may agree between themselves to vary this general rule. They may agree, for instance, that one of the partners is not to have the power to order goods valued at more than £20 without authority in writing from the other partners; but this agreement, although good as between the partners themselves, is not binding upon any person outside the firm who has not had notice of it. So that if the partner in question ordered goods in the ordinary course of business valued at, say, £100, the firm would be compelled to pay for them unless the person from whom the goods were ordered was aware of the restriction referred to .

Liability of Incoming Partner.—An incoming partner is not liable for any of the debts of the firm contracted prior to the date of his entering into partnership. He may, of course, agree with the other partners to accept his share of the liability; but this agreement, while good as between the partners, will not make him liable to the creditors unless they were parties to the agreement.

Liability of a Retiring Partner.—A person retiring from a firm does not cease to be liable for the debts of the firm contracted prior to the date of his retirement. He may enter into an agreement with the remaining partners whereby the remaining partners undertake to take over the liabilities of the late firm, but this will not release the retiring partner insofar as the creditors are concerned. They are entitled to look to

him for payment of debts incurred prior to retirement in the same way as if he were still a partner, and the retiring partner's remedy is then against the remaining partners. The position, of course, would be different if the creditors agreed, either expressly or implicitly, to release the retiring partner from liability—and to accept the new firm as their debtor in place of the old.

A retiring partner may, however, render himself liable for debts incurred by the firm after his retirement unless he gives the required notice that he is no longer a member of the firm. In order to protect himself he should publish an advertisement in the Gazette and in at least one newspaper circulating in the capital of the State, and in one newspaper circulating in the district in which the firm carries on business. This is deemed to be sufficient notice to persons who had no dealings with the firm before the date of dissolution. In order to protect himself against the possibility of further claims by the creditors of the business and persons with whom the firm has had dealings he must, in addition, send express notice of his retirement to such persons.

In the event of the death of a partner his estate becomes severally liable (subject to the prior payment of his private debts) for the whole of the debts of the firm owing at the date of death; but the estate is not liable for any debts contracted by the firm after the date of death, and it is not necessary to announce the death in the Gazette or newspapers referred to above, nor is it necessary to send express notice to the creditors of the firm, as death is deemed to be notice to everyone.

LIMITED PARTNERSHIP.—In Tasmania and West Australia provision is made for limited partnership, following the English Limited Partnership Act of 1907.

Limited partnerships are governed generally by the law relating to partnership, but the Limited Partnership Act makes special provision, enabling partners to have limited liability in connection with the firm's dealings provided there is at least one general partner in the firm. As in the case of an ordinary partnership, there must not be more than ten members in a banking business, or twenty members in a trading concern. The firm must consist of one or more persons, called general partners, who shall be liable for all the debts and obligations of the firm and one or more persons called limited partners, who shall on entering the partnership contribute an amount as capital, but who shall not be liable for the debts beyond the amount contributed.

A limited partner must not withdraw the amount contributed by him to the firm during the continuance of the partnership. The partnership must be registered. A limited partner must not take part in the management of the business and shall not have power to bind the firm in any contracts. If he does take part in the management of the business he will be liable as a general partner. A limited partner has, however, the right to inspect the books at any time.

The registration of a limited partnership is effected by forwarding to the Registrar a statement signed by all the partners setting out the following information:—

(1) The firm name.

(2) The general nature of the business.

(3) The principal place of business.

(4) The full name and address of each of the partners.

(5) The term for which the partnership is entered into and the date of its commencement.

(6) A statement that the partnership is limited, and the description of every partner as such.

(7) The sum contributed by each limited partner, and whether paid in cash or how otherwise.

Any alteration of the above must be notified to the Registrar within seven days.

Subject to an agreement, express or implied, between the partners—

(a) Any differences on ordinary matters are to be decided by a majority of the general partners.

(b) A limited partner may, with the consent of the general partners, assign his share in the partnership.

(c) The other partners are not entitled to dissolve the partnership by reason of any limited partner suffering his share to be charged for his separate debts.

(d) A person may be introduced as a partner without the consent of the existing limited partners.

(e) A limited partner is not entitled to dissolve the partnership by notice.

SPECIAL PARTNERSHIPS.—In New Zealand, Part II. of Partnership Act, 1908, makes provision for special partnerships which are very similar to the limited partnerships described above. The general provisions of the Partnership Act relate to special partnerships with the following exceptions:—

Special partnerships may consist of any number of persons, and can carry on any business except banking and insurance. Such partnerships may consist of general partners, who shall be liable as ordinary partners, ad special partners who shall not be liable beyond the amount of capital contributed by them.

Such partnerships must be registered, and registration is secured by filing a certificate signed by all the partners, both general and special, with the Registrar of the Supreme Court. Such certificate must contain the following information:—

(a) The firm name.

(b) Names and addresses of partners, distinguishing general from special partners.

(c) Amount of capital which each special partner contributed and the amount contributed by general partners.

(d) General nature of the business.

(e) Principal place of business.

(f) Date of commencement and termination of partnership.

A special partnership must not be entered into for more than seven years, but may be renewed at the end of that period. The firm name must not include the name of any special partners and must have as the last two words of the name "and Company." Business must be transacted only by general partners. If in any business transaction the name of any special partner is used with his privity and consent he shall have the liability of a general partner in connection with such transaction.

During the continuance of the partnership none of the certified capital is to be withdrawn.

CHAPTER V.

PARTNERSHIP ACCOUNTS.

OPENING ENTRIES—ADJUSTING PROFITS.

As compared with the accounts of a sole trader the only difference in the actual bookkeeping required to record the transactions of a partnership is that the bookkeeper has, in addition to keeping the usual record of transactions of the business as a whole, to keep a strict record of the position as between the business and each of the partners, and to enable him to do this he must always make himself thoroughly conversant with the terms of the partnership agreement, if any.

The opening entries in a partnership concern are very similar to those in the books of a sole trader. Separate Capital accounts will be opened for the partners, and these will be credited with the value of the assets brought in by them respectively. In the case of a totally new business the probability is that cash will be the only asset introduced by the partners, and Cash account will be debited and each partner's Capital account credited with the amount brought in by him. In other cases the proprietor or prorietors of a business already in existence may require to take in a partner, or an additional partner, as the case may be. It is usual under these circumstances to continue the books of the old concern, and it will be necessary to adjust the accounts to the date on which the fresh agreement comes into force by preparing a Profit and Loss account and Balance Sheet in order to ascertain the exact amount of capital which the old proprietor or proprietors have in the business.

It is more than likely that the incoming partner will require a more conservative valuation to be placed upon the assets disclosed in the books of the old concern than is usual when a business is closing off the accounts on an ordinary balance day. The new partner will probably require that the whole of the assets be written down as near as possible to their actual value, seeing that, if these assets are subsequently realised at a loss, he will have to stand his share of such loss. On the other hand, the then proprietor or proprietors of the business will almost invariably require a payment by the incoming partner as a bonus for goodwill, as he is being admitted into a concern which is already established and has a certain business connection. This is a point, however, which is dealt with fully in Chapter VII., under the heading of "Goodwill."

Assuming that an agreement as to the valuation of the assets and the amount of the old proprietor's capital has been arrived at, the only entry necessary upon the introduction of the new partner will be a debit to Cash account and a credit to his Capital account, if he is bringing in cash, or, if he is bringing in other assets, a debit to accounts representing such assets and a credit to his Capital account.

As an illustration: Suppose that John Smith, a merchant, decides to take in a partner. The amount standing at the credit of his Capital account is £10,000, and an arrangement is made whereby the new partner, William Jones, is to bring in a similar amount in assets. If Jones is to pay in this amount in cash the entry in the books will be as follows:—

Cash A/c.	Dr.	£10,000	
To W. Jones Capital A/c			£10,000

Jones, on the other hand, may at the time have been in business himself, and it may be arranged that assets totalling £10,000, to be introduced by him, are to be made up as follows:—Book Debts, £5000; Stock, £3000; and the balance in Cash. In such a case the entry necessary on the introduction of this partner would be:—

Sundry Drs. A/c	Dr.	£5,000	
Stock-in-trade A/c	Dr.	3,000	
Cash A/c	Dr.	2,000	
To W. Jones Capital A/c			£10,000

It is advisable, in this class of accounts, to divide the Profit and Loss account into two portions, the second portion being called Appropriation account. The first portion, Profit and Loss account, will show the actual net profit earned by the business in trading, and the Appropriation account how this net profit is appropriated between the partners. Where an Appropriation account is not used it will, in most cases, require some calculation in order to enable the actual trading profits to be ascertained and, as the accounts should show the position as clearly as possible without necessitating lead pencil calculations, an Appropriation account should invariably be opened.

The Profit and Loss account is prepared upon exactly the same lines as in the case of a sole trader, and the net profit when ascertained is carried to the credit of Appropriation account. If provision is made in the agreement that partners are entitled to interest on their capital, the charge for interest will be made in the Appropriation account, the partners' Capital accounts being credited with the amounts respectively due to them. Any reserves for general purposes, such as are properly treated as an appropriation of profits rather

than as a charge against profits, and any amounts written off goodwill, will require also to be charged to this account, the balance of the account, representing the final profit available for distribution between the partners, being transferred to the partners' capital account in the agreed proportions.

It is urged in some quarters that interest on the partners' capital should be treated as a charge against profits as the business should fairly be charged with the interest before the actual net profit can be ascertained. It is submitted, on the other hand, that partners do not put their money into a business in order to earn interest. A reasonable rate of interest on the amount could be earned upon a far less risky investment. The capital is there as a necessary portion of the equipment of a trading venture, and it is introduced for the purpose of enabling profits to be earned rather than for the purpose of earning interest. It might also be pointed out that, where interest on capital is agreed upon between the partners, it is solely for the purpose of adjusting any inequality in the amount of capital paid in by the partners and such an adjustment should, it is thought, be made after the actual result of the trading has been ascertained.

The following points, mentioned in the previous chapter, should be kept in mind:—

(a) Partners are not entitled to interest on their capital in the absence of an agreement to the contrary.

(b) In the absence of an agreement to the contrary partners are entitled to interest at the rate given on Page 61 on any advances, as distinct from capital, made by them to the firm.

(c) In the absence of agreement to the contrary partners are not entitled to remuneration, but if salaries are agreed upon these salaries will be debited to Profit and Loss account, being treated in the same way as salaries paid to employees.

(d) Partners are not entitled to draw in anticipation of profits in the absence of an agreement enabling them to do so, express or implied. Where it is agreed that drawings may be made, a separate Drawings account should be opened for each partner, and the drawings of each partner charged to that account, the object being to keep details out of Capital accounts. The balance of each partner's Drawings account should be transferred to the debit of his Capital account at the end of the year, and not to Profit and Loss account. No interest

should be charged on the drawings unless agreed upon, and this is so even where partners are to be allowed interest on their capital.

In the following examples the Drawings accounts are not shown, but it should be remembered that these would be required in actual practice

EXAMPLE No. 2.

John Smith, being desirous of extending his business, agrees with W. Jones to form a partnership Smith brings in the following assets:—Bills Receivable, £1100; Stock-in-trade, £2250; Bank Balance, £1948; Book Debts, £2875; Fixtures and Fittings, £327. The goodwill of Smith's business is valued at £1000, and it is agreed that this amount is to be written off out of profits at the rate of £200 per annum.

Jones pays in £10,000 in cash.

It is agreed that interest is to be allowed on the partners' capital at the rate of 5 per cent. per annum.

During the year, Smith draws out £350, and Jones £750. The profit at the end of the year is shown to be £3875, against which is still to be charged interest on capital. Make up the accounts showing the position of the partners at the end of the year.

OPENING JOURNAL ENTRIES.

Bills Receivable A/c	Dr.	£1,100	
Stock-in-trade A/c	Dr.	2,250	
Bank A/c.	Dr.	1,948	
Sundry Debtors A/c	Dr.	2,875	
Fixtures and Fittings A/c	Dr.	327	
Goodwill A/c.	Dr.	1,000	
To John Smith Capital A/c.			£9,500
Bank A/c	Dr.	£10,000	
To W. Jones Capital A/c			£10,000

APPROPRIATION ACCOUNT.

Dec. 31—		Dec. 31—	
To Goodwill A/c.	£200	By Net profit transferred from P. & L. A/c	£3,875
„ Interest on Capital—			
J. Smith Capital A/c.	475		
W. Jones Capital A/c.	500		
„ Profit transferred to Capital A/cs—			
W. Jones, half share..	1,350		
J. Smith, half share..	1,350		
	£3,875		£3,875

JOHN SMITH CAPITAL ACCOUNT.

Dec. 31.	To Drawings	£350	Jan. 1.	By Sundry Assets..	£9,500
	,, Balance	10,975	Dec. 31.	,, Interest on Capl.	475
				,, Half share of profits	1,350
		£11,325			£11,325

W. JONES CAPITAL ACCOUNT.

Dec. 31.	To Drawings	£750	Jan. 1.	By Cash	£10,000
	,, Balance	11,100	Dec. 31.	,, Interest on Capl.	500
				,, Half share of profits	1,350
		£11,850			£11,850

EXAMPLE No. 3.

A. B. and C. are in partnership, sharing profits in the following proportions:—A, three-fifths; B. one-fifth; C, one-fifth. The Capital accounts stood at the commencement of the year as follow: A £4000; B, £2500; C, £1000. £100 each month was to be charged as salary and paid to the partners in the proportions in which they shared profits. During the year A. drew over and above his salary the following amounts: 31st March, £80; 30th June, £40; B. drew £90 on the 30th April, and C. drew £80 on 30th September.

The gross profits for the year amounted to £7000, from which are to be deducted General Expenses, £2800; Interest on Mortgage, £250; Discounts £48; Bad Debts £200; Depreciation, £50, and also the partners' salaries. Interest on Capital is to be allowed at the rate of 5 per cent. per annum, and partners are to be charged with interest at the same rate on their drawings.

Show the Profit and Loss account and the Capital account as at the end of the year:

PROFIT & LOSS ACCOUNT, for year ended 31st December.

To General Exes...		£2,800	By Gross Profit	£7,000
,, Interest on Mortgage ..		250		
,, Discounts		48		
,, Bad Debts		200		
,, Depreciation		50		
,, Partners' Salaries:—				
A	£720			
B	240			
C	240			
		1,200		
,, Net Profit transferred to Appropriation A/c		2,452		
		£7,000		£7,000

APPROPRIATION ACCOUNT.

To Interest on Capital—		By Net profit for year	£2,452
A. Capital A/c	£200	" Interest on Drawings—	
B. " "	125	A. Capital A/c	4
C. " "	50	B. " "	3
" Profit transferred to Capital A/c.—		C. " "	1
A.—three-fifths	1,251		
B.—one-fifth	417		
C.— "	417		
	£2460		£2,460

A. CAPITAL ACCOUNT.

Dec. 31	To Drawings	£120	Jan. 1.	By Balance	£4,000
	" Interest	4	Dec. 31.	" Interest	200
	" Balance	5,327		" Three-fifths of profits	1,251
		£5,451			£5,451

B. CAPITAL ACCOUNT.

Dec. 31.	To Drawings	£90	Jan. 1.	By Balance	£2,500
	" Int. on Drawings	3	Dec 31.	" Interest on Capl.	125
	" Balance	2,949		" One-fifth share of profits	417
		£3,042			£3,042

C. CAPITAL ACCOUNT.

Dec. 31.	To Drawings	£80	Jan. 1.	By Balance	£1,000
	" Interest	1	Dec. 31.	" Interest on Capl.	50
	" Balance	1,386		" One-fifth share of profits	417
		£1,467			£1,467

CHAPTER VI.

PARTNERSHIP ACCOUNTS (Continued).

DISSOLUTION OF PARTNERSHIP.

It has already been explained that, in the absence of an agreement to the contrary, a partnership will be dissolved by the death or bankruptcy of one of the partners. In addition, if one partner makes an assignment of his share of the partnership assets to another person, the partnership may be dissolved at the option of the other partners. Provision is also made in the Partnership Act that the Court may, under certain circumstances, decree a dissolution, as, for example, upon the Lunacy or misconduct of a partner or where it is clear that the partnership business can only be carried on at a loss. Again where the partnership was entered into for a fixed term, and that term has expired, any partner can cause the partnership to be dissolved by giving notice to the other partners that he desires to retire, and a similar course can be followed at any time by a partner where no fixed term was agreed upon.

Of course, provision may be contained in the partnership agreement, that, in the event of a dissolution owing to the death, bankruptcy, or retirement (compulsory or otherwise) of a partner, the other partners may have the option of taking the business over; but, in the absence of such an arrangement, the assets must be realised and the Act provides that the assets of a firm, after a dissolution of partnership, shall be applied in the following manner and order:—

(1) In paying the debts and liabilities of the firm to persons who are not partners therein.

(2) In paying to each partner ratably what is due by the firm to him for advances as distinguished from capital.

(3) In paying to each partner ratably what is due from the firm to him in respect of capital.

(4) The ultimate residue, if any, shall be divided among the partners in the proportion in which profits are divisible.

The entries to be passed in the books upon a dissolution will depend upon the nature of the dissolution. The dissolution may, for example, result in one or more partners going out, the business being continued by the remaining partner or partners, or in the winding-up of the business as a whole, involving a realisation of the assets. As the procedure is somewhat different in each case it is proposed to explain the entries necessary under the following circumstances:—

(a) One or more partners may retire leaving the other partners to continue the business.

(b) One partner may arrange to purchase the business from the remaining partners and conduct it as a sole trader.

(c) The business may be wound up altogether, the assets being realised and each partner paid his share of the assets remaining after all liabilities are discharged.

Retirement of One Partner.—Where the partnership agreement makes provision for the ascertainment of the value of a partner's interest in the business upon retirement, the terms of this agreement must necessarily be carried out. If, for example, provisions as to the course to be followed upon retirement, such as are mentioned in Chapter IV., were included in the partnership agreement, the procedure would be simple in the extreme. The retiring partner's share of the profits would be calculated in the manner indicated: i.e., a proportion of his share of the average profits for the last three preceding years and an entry passed debiting Appropriation account and crediting his Capital account. Similarly the value of goodwill would be ascertained and an entry passed debiting Goodwill account and crediting his Capital account with a proportion of the total value, calculated according to the ratio in which he shared profits. After transferring any drawings made by him in the current year to the debit of his Capital account, that account would then show what was due from the remaining partners to him for his interest in the business, and that amount would be paid to him in the manner agreed upon.

Where, however, no provisions are made in the agreement such as are mentioned above, it will be necessary to take stock and prepare a Profit and Loss account in the usual way in order to enable the amount of the retiring partner's share of the profits up to the date of his retirement to be arrived at. The items to be included in the Profit and Loss account for the period in question may be the cause of a considerable amount of argument between the partners. The amount to be charged against the profits in order to reduce the assets

to the figure at which the remaining partners are prepared to take them over is a matter for agreement between them and the retiring partner. Ordinary valuations will do for ordinary balancing purposes, but the remaining partners will be more careful than usual to see that none of the assets are over-stated in the books, seeing that any subsequent loss on these assets will fall upon them. They will naturally be anxious to have the assets written down as much as possible and the retiring partner will be just as anxious to keep such writing-off down to a minimum seeing that any deductions will reduce his share of the profits.

Special care should also be exercised to ensure that all accruing income and expenses are brought into account, that all bad debts are written off, provision made for doubtful debts, and it is advisable, even although it has not been the custom to do so in the past, to make provision for discounts to be allowed and received on debtors' and creditors' balances. Enough has been said to show the nature of the adjustments to be made and to indicate how important it is to have some provision in the agreement such as that already referred to, as in such a case no dispute about the necessary adjustments would be possible. (See Example 4.)

It should be noted that a retiring partner is entitled to his share of any general reserve consisting of undivided profits. It is not often that such reserves are created in partnership accounts as the profits are generally placed to the credit of the capital accounts. A retiring partner could not, of course, claim a share of any special reserves created to meet future losses, such as a reserve for doubtful debts, but if a reserve has been created out of profits to provide, say, for the acquisition of business premises at some future date, the retiring partner is entitled to his share of such reserve, as he could hardly be expected to contribute towards the purchase of an asset from which he would obtain no benefit and which would belong solely to the remaining partners. When any general reserves exist an entry will be passed debiting Reserve account and crediting the retiring partner's Capital account with a proportion of the balance of such account according to the ratio in which he shared profits.

One Partner Purchasing the Business.—Assuming, again that there is no provision in the agreement as to the course to be followed, the position, as compared with that mentioned under the previous heading, is exactly reversed, for in this case one partner will be extremely anxious to have the assets written down to the lowest possible amount and the other partners equally anxious to maintain them at as high a figure as possible.

Where the purchasing partner takes over the books of the old firm the procedure so far as the bookkeeping entries are concerned will be similar to that mentioned above. After the amount of profit or loss for the period has been ascertained and the partners' Capital account adjusted the outgoing partners will be paid the amount due to them, leaving open the Capital account of the purchasing partner.

Where, however, it is desired to treat the transaction in the books of the firm as a complete winding-up of the old partnership by a sale to the purchasing partner, the procedure after the usual adjustments have been made and the profits or losses transferred to the partners' Capital accounts, will be somewhat different. The whole of the assets and liabilities will be transferred to the purchasing partner's Capital account and this will naturally result in his account having a debit balance equalling the total of the credit balances in the remaining partners' Capital accounts. It will then be necessary for the purchasing partner to pay into the business the amount of his debit balance, thus providing the necessary cash to pay off the other partners. (See Example 5.)

Dissolution by Sale of the Business.—Here, again, it will be necessary to ascertain the amount of profit or loss up to the date of dissolution and adjust the partners' Capital accounts in the usual way. This being completed it is then usual to open an account called a Realisation account, to which will be transferred the balances of all the accounts representing assets. Realisation account will be credited with the amount received upon sale of these assets and debited with the costs of realisation, the corresponding entry in each case being made in the Cash account (where cash is received as consideration).

The balance of Realisation account, which then shows the net profit or loss on realisation, will be transferred to Appropriation account and apportioned to the partners' Capital accounts in the usual ratio. If the business is sold as a going concern the probability is that the purchaser will take over the liabilities. In such a case this will form part of the consideration granted by the purchaser for the transfer of the assets and the balances of the accounts representing such liabilities must therefore be transferred to the credit of Realisation account.

If, however, the partners have to discharge their own liabilities, the next step will be to pay off the creditors, Cash account being credited and the accounts representing the various liabilities debited. It then remains to distribute the balance of cash between the partners, and the various Capital and Loan accounts, if any, will show the amount due to each partner. It will be remembered that advances must be re-

paid in full before anything is returned to the partners in respect of capital, and if any partner has made a loan to the business this must next be paid off, Cash account being credited and the Loan account debited.

The same effect (assuming there is sufficient cash to pay in full) is obtained by transferring the balance of the Loan account to the partner's Capital account, as this will naturally increase the amount due to him in respect of capital, or, if his Capital account is in debit, decrease the amount due from him on adjustment. The balance of cash in hand will then just suffice to pay to each partner the amount standing at the credit of his Capital account.

If the loss on realisation causes any partner's Capital account to be in debit, he must, if he can, pay this amount into the business, as otherwise there will not be sufficient cash to pay off the remaining partners. It might be mentioned that, where a partnership business is selling out to a company, a portion of the consideration will very often consist of shares in the company. In such a case the Shares account will be debited and Realisation account credited with the value of the shares and the only difference in the procedure on a final adjustment between the partners is that the partners will receive shares or shares and cash, instead of cash only. The procedure on dissolution by sale, explained above, might be summarised as under:—

(a) Transfer the balance of all accounts representing assets to the debit of Realisation account.

(b) Debit Cash account (or other account representing the assets received in consideration) and credit Realisation account with the amount received on sale of the assets.

(c) Debit Realisation account and credit Cash account with costs of realisation (if any).

(d) If the liabilities are taken over by the purchaser the credit balances representing such liabilities in the books of the firm will be transferred to the credit of Realisation account, as this represents part of the consideration which the firm receives for the assets.

(e) Transfer the balance of Realisation account representing the net profit or loss, to Appropriation account.

(f) Divide the balance of Appropriation account between the partners in the proportion in which they share profits.

(g) Pay off the creditors (if such accounts are not taken over by purchaser).

(h) Repay to partners any loans made by them to the firm.

(i) Pay to the partners the amount standing at credit of their Capital account or collect (if possible) the amount standing at debit of any partner's Capital account. (See Example 6.)

Amounts Due by Partners on Adjustment.—If, on dissolution, a partner's Capital account is in debit, and it is impossible for the other partners to obtain payment from him, it is obvious that the loss must be borne by the remaining partners, and the question arises as to the proportion in which it is to be borne by them. Until the decision given on this point by Mr. Justice Joyce in Garner v. Murray it was the practice to treat this in the same way as any other loss and divide it between the remaining partners in the proportion in which they had been sharing trading profits and losses. In the case mentioned, however, it was decided that there is a difference between a loss to the firm as a whole, e.g., a loss on trading or on realisation, and a loss to the remaining partners occasioned by the default of one partner, and that any agreement as to the sharing of trading losses does not, in the event of such default, apply. The decision in Garner v. Murray provided that such a loss was to be borne by the remaining partners in proportion to their capital in the firm.

The above explanation gives the practical effect of the decision, although the matter was dealt with by the Judge from a different standpoint, i.e., on a cash basis. In the above case the solvent partners were required to pay into the firm in cash their shares of the total deficiency and the amount of cash thus made available was divided between the solvent partners in proportion to their capital. If the method of adjustment prescribed by Mr. Justice Joyce were to be followed to the letter, the result would be that the capital accounts of all the partners would remain open indefinitely and as, from an Accountant's standpoint, this would hardly be desirable the following method of giving effect to the decision would probably be adopted.

In the first place the utility of requiring the solvent partners to pay in cash their proportions of the loss as disclosed by the Deficiency account is questioned; the accountant's method of charging to each partner's Capital account his proportion of the deficiency giving the same practical result. If the amount standing at debit of the insolvent partner's account be then transferred to the remaining partners' Capital accounts the cash balance—assuming that all assets have been realised and all liabilities discharged—will then be just sufficient to repay to each partner the amount due to him. (See Example 7.)

From a practical standpoint, therefore, any loss occasioned by the default of one partner must, in the absence of any agreement to the contrary, be borne by the remaining partners in proportion to their capital, and, in order to enable the loss to be divided correctly, it is necessary to ascertain what is the amount of each partner's capital. This is not always so easy to decide, as might at first sight appear. It is not safe to rely on the fact that the balance of a partner's Capital account represents what is, legally, his capital. The amount of a partner's capital is a matter for agreement between the partners and such capital may be varied from time to time. Prima facie, it is the amount which he agrees to contribute on joining the firm and, if it is desired to prove that his capital is some amount other than this, it must be shown that there was an agreement either express or implied between the partners to the alteration. In most businesses the Capital accounts fluctuate, as it is the custom to credit profit and interest and debit drawings and losses to these accounts, but this does not of itself cause the actual capital of each partner to be altered and, if at any time a partner's Capital account shows a balance in excess of his agreed capital, he is entitled to withdraw this excess, or, conversely if his Capital account shows a shortage he can be called upon to pay up the deficiency.

It is submitted, however, that, if the partners have been in the habit of preparing a periodical Balance Sheet and of signing such Balance Sheet, thus indicating that they accept the position disclosed therein, this will be sufficient to prove that the partners have agreed to an alteration of the actual capital to the amount shown in such Balance Sheet, and in such a case a loss caused by the default of one partner would be borne by the remaining partners in proportion to their last agreed capital: i.e., the balance of the respective Capital accounts as shown in the last signed Balance Sheet.

It must be borne in mind that the rule laid down in Garner v. Murray only applies under the following circumstances:—

(1) Where there are at least three partners.

(2) Where one partner's Capital account is in debit, and it is impossible to obtain payment from him.

(3) Where there is no agreement between the partners to the contrary. This rule could be excluded by inserting a provision in the partnership agreement that any loss occasioned by the default of one partner is to borne by the remaining partners in the proportion in which they share profits.

EXAMPLE No. 4.—Illustrating the entries to be passed upon the retirement of one partner.

A., B. and C. are partners sharing profits and losses equally. Their joint capital on the 1st January was £1500 in equal shares. On the 1st July A. brought in an additional £500 capital, and on the 1st October A. drew £80, B. drew £60, and C. drew £40. The partners' agreement having expired at the beginning of the year, C. gave notice of his intention to retire on the 31st December, at which date the net profit was shown to be £650, against which had still to be charged interest on Capital and Drawings at 5 per cent. It was agreed between the partners on the 31st December that the goodwill of the business was worth £450. Show the position of the partners as at 31st December.

Dec. 31.—			
Goodwill A/c	Dr.	£150	
To C. Capital A/c			£150
Being one-third share of goodwill as agreed upon between the partners.			

APPROPRIATION ACCOUNT.

	£	s.	d.		£	s.	d.
Dec. 31.—				Dec. 31.—			
To Interest on Capital—				By Net Profit	£650	0	0
A. Capital A/c	£37	10	0	„ Interest on Drawings—			
B. „ „	25	0	0	A. Capital A/c ..	1	0	0
C. „ „	25	0	0	B. „ „ ..	0	15	0
Profits—				C. „ „ ..	0	10	0
A. Capital A/c	188	5	0				
B. „ „	188	5	0				
C. „ „	188	5	0				
	£652	5	0		£652	5	0

A. CAPITAL ACCOUNT.

	£	s.	d.		£	s.	d.
Dec. 31.—				Jan. 1. By Balance ..	£500	0	0
To Drawings	£80	0	0	July 1. „ Cash	500	0	0
„ Int. on Drawings ..	1	0	0	Dec. 31. „ Int. on Capl.	37	10	0
„ Balance	1144	15	0	„ Profits	188	5	0
	£1225	15	0		£1225	15	0
				Jan. 1. By Balance ..	£1144	15	0

B. CAPITAL ACCOUNT.

	£	s.	d.		£	s.	d.
Dec. 31.—				Jan. 1. By Balance.. ..	£500	0	0
To Drawings	£60	0	0	Dec. 31. „ Int. on Capl.	25	0	0
„ Int. on Drawings ..	0	15	0	„ one-third share			
„ Balance	652	10	0	of profits ..	188	5	0
	£713	5	0		£713	5	0
				Jan. 1. By Balance ..	£652	10	0

C. CAPITAL ACCOUNT.

Dec. 31.	To Drawings ..	£40 0 0	Jan. 1.	By Balance ..	£500 0 0
	" Interest on Drawings	0 10 0	Dec. 31.	" Goodwill ..	150 0 0
	" Balance ..	822 15 0		" Int. on Capl.	25 0 0
				" One-third share of profits	188 5 0
		£863 5 0			£863 5 0
			Jan. 1.	" Balance	£822 15 0

EXAMPLE No. 5.—Illustrating the entries where one partner takes over, the books remaining the property of the old firm.

Archer, Smith and Jones are in partnership, and at the end of seven years, when their agreement had expired by effluxion of time, it was arranged that Archer was to take over the business from the firm, upon his undertaking to pay the other partners off in cash. After the necessary adjustments had been made, and the profits credited to the partners' Capital accounts, the Balance Sheet showed the position to be as under:—

BALANCE SHEET as at Dec. 31st.

Liabilities.		Assets.	
Bank Overdraft	£1,500	Bills Receivable	£1,750
Sundry Creditors	7,500	Sundry Debtors	5,800
Bills Payable	1,000	Stock	5,600
Archer Capital A/c	5,500	Horses, Vans, &c.	700
Smith Capital A/c.	2,750	Plant and Machinery	3,400
Jones' Capital A/c.	500	Leasehold Premises	1,500
	£18,750		£18,750

CLOSING ENTRIES.

Dec. 31.	Archer Capital A/c	Dr.	£18,750	
	To Bills Receivable A/c ..			£1,750
	Sundry Debtors' A/c.			5,800
	Stock-in-trade A/c			5,600
	Horses, Vans. etc., A/c.			700
	Plant and Machinery ..			3,400
	Leasehold Premises, etc.			1,500
	Being Assets taken over by Archer as at this date.			
	Bank A/c	Dr.	£1,500	
	Sundry Creditors A/c	Dr.	7,500	
	Bills Payable A/c	Dr.	1,000	
	To Archer Capital A/c ..			£10,000
	Being Liabilities taken over.			
	Cash A/c	Dr.	£3,250	
	To Archer Capital A/c. ..			3,250
	Being amount due by Archer on adjustment paid by him.			
	Smith Capital A/c	Dr.	£2,750	
	Jones Capital A/c	Dr.	500	
	To Cash A/c			£3,250
	Being Payment to Smith and Jones of amounts standing at credit of their Capital Accounts.			

ARCHER CAPITAL ACCOUNT.

Dec. 31.		Jan. 1.	
To Bills Rec.	£1,750	By Balance	£5,500
„ Sundry Debtors	5,800	Dec. 31.	
„ Stock-in-trade	5,600	By Bank A/c.	1,500
„ Horses, Vans, etc. ..	700	„ Sundry Crs.	7,500
„ Plant and Machinery ..	3,400	„ Bills Payable	1,000
„ Leasehold Premises ..	1,500	„ Cash	3,250
	£18,750		£18,750

SMITH CAPITAL ACCOUNT.

Dec. 31.—To Cash	£2,750	Dec. 31.—By Balance	£2,750

JONES' CAPITAL ACCOUNT.

Dec. 31.—To Cash	£500	Dec. 31.—By Balance	£500

EXAMPLE No. 6.—Two partners, A. and B., who share profits in the proportion respectively of two-thirds and one-third, had, at the credit of their capital accounts on the 1st January, 1920: A., £15,750; B., £9642.

They decide to sell their business on the 31st December, 1920, to the Excelsior Trading Co., Ltd., and agree to accept as consideration therefore £25,000 in shares of £1 each, issued as fully paid up, and £18,266 in cash, the partners paying off the creditors. The partners agree that the cash balance is to be divided equally (to the nearest £) between them, and to take the balance due to them in shares.

The partners' withdrawals during the year have been: A., £657; and B., £434.

The assets of the firm consist of Premises, Plant, Stock, Book Debts, etc., valued in the books on 31st December, 1920, at £40,390.

The Creditors, whose claims amount to £15,217, are to be paid off.

A. is entitled to be credited with £797 for interest on his capital, and B. with £488.

Show the Capital accounts and Realisation account as they would finally appear in the books (Journal entries omitted).

TRIAL BALANCE.

Sundry Assets	£40,390	Sundry Creditors	£15,217
Drawings—A	657	Capital A/cs.—A	15,750
B	434	B	9,642
		Balance representing net profit for year	872
	£41,481		£41,481

REALISATION ACCOUNT.

Dec. 31, 1920—		Dec. 31, 1920—	
To Sundry Assets	£40,390	By Cash	£18,266
" Profit on Realn. carried to Appropriation A/c.	2,876	" Shares in Company ..	25,000
	£43,266		£43,266

APPROPRIATION ACCOUNT.

Dec. 31, 1920—		Dec. 31, 1920—	
To Int. on Capital—A.	£797	By Net Profit on Trading for year	£872
B.	488	" Net Profit on Realn. ..	2,876
" A Capital A/c. (2/3rds)	1,642		
" B Capital A/c. (1/3rd)	821		
	£3,748		£3,748

SHARES IN EXCELSIOR CO. ACCOUNT.

Dec. 31, 1920—		Dec. 31, 1920—	
To Realisation A/c.	£25,000	By A Capital A/c.	£16,007
		" B Capital A/c.	8,993
	£25,000		£25,000

CASH ACCOUNT.

Dec. 31, 1920—		Dec. 31, 1920—	
To Realisation A/c	£18,266	By Sundry Crs.	£15,217
		" A Capital A/c	1,525
		" B Capital A/c	1,524
	£18,266		£18,266

A. CAPITAL ACCOUNT.

Dec. 31, 1920—		Jan. 1, 1920—	
To Drawings	£657	By Balance	£15,750
" Cash	1,525	Dec. 31, 1920—	
" Shares in Excelsior Coy.	16,007	By Interest on Capital	797
		" Profits (2/3rds share) ..	1,642
	£18,189		£18,189

B. CAPITAL ACCOUNT.

Dec. 31, 1920—		Jan. 1, 1920—	
To Drawings	£434	By Balance	£9,642
" Cash	1,524	Dec. 31, 1920—	
" Shares	8,993	By Interest on Capital	488
		" Profits (1/3rd share) ..	821
	£10,951		£10,951

EXAMPLE No. 7.—Illustrating the method of adjustment between partners upon dissolution, where one partner is unable to pay in the amount of his deficiency.

Black, White and Brown are in partnership, sharing profits and losses equally, and as it is apparent that the business can only be conducted at a loss, it is decided to dissolve the partnership by realising the whole of the assets. At the date upon which this decision was come to the Balance Sheet of the firm appeared as under:—

BALANCE SHEET.

Liabilities.		Assets.	
Sundry Creditors	£4,700	Sundry Assets	£10,000
Black Capital A/c.	4,000	Brown (overdrawn)	700
White Capital A/c.	2,000		
	£10,700		£10,700

The assets subsequently realise £8,500, and as it is found impossible for Brown to make any payment to the firm in respect of the amount due by him, it is desired to show how the cash received upon dissolution is to be distributed.

SOLUTION A., following the method of adjustment laid down by Mr. Justice Joyce.

REALISATION ACCOUNT.

To Sundry Assets	£10,000	By Cash	£8,500
		,, Loss on Realisation transferred to Deficiency Account	1,500
	£10,000		£10,000

DEFICIENCY ACCOUNT.

To Loss on Realisation	£1,500	By Loss on Realn. paid in by Black	£500
		,, Loss on Realn. paid in by White	500
		,, Balance (owing to Brown)	500
	£1,500		£1,500

BLACK CAPITAL ACCOUNT.

To Cash	£3,200	By Balance	£4,000
,, Balance	800		
	£4,000		£4,000
		,, Balance	£800

WHITE CAPITAL ACCOUNT.

To Cash	£1,600	By Balance	£2,000
,, Balance	400		
	£2,000		£2,000
		,, Balance	£400

BROWN CAPITAL ACCOUNT.

To Balance	£700		

CASH ACCOUNT.

To Proceds of Realn.	£8,500	By Sundry Creditors	£4,700
„ Deficiency A/c. Payment by Black	500	„ Balance	4,800
„ Deficiency A/c. Payment by White	500		
	£9,500		£9,500
„ Balance	4,800	By Black Capital A/c.—4,000/6,000ths of £4,800	£3,200
		„ White Capital A/c.—2,000/6,000ths of £4,800	1,600
	£4,800		£4,800

NOTE.—It will be seen that four accounts will remain open indefinitely in the books.

SOLUTION B. Suggested solution, showing that the charging to each partner of his share of the loss on realisation, and the sharing by the remaining partners of the balance standing at debit of the defaulting partner's Capital account in the proportion of their agreed capital, gives the same ultimate result, i.e., Black and White will lose £800 and £400 respectively, but causes the whole of the accounts in the books to be closed off.

REALISATION ACCOUNT.

To Sundry Assets	£10,000	By Cash		£8,500
		„ Loss in Realn. transferred to Capl. A/cs.:		
		Black	500	
		White	500	
		Brown	500	
				1,500
	£10,000			£10,000

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Black Capital A/c.	Dr.	£800	
White Capital A/c.	Dr.	400	
To Brown Capital A/c.			£1200
Being loss owing to Brown's failure to contribute the amount due by him apportioned between the remaining partners in the proportion of their last agreed capital.			

BLACK CAPITAL ACCOUNT.

To Loss on Realn.	£500	By Balance	£4,000
„ Brown Capital A/c. ..	800		
„ Cash	2,700		
	£4,000		£4,000

WHITE CAPITAL ACCOUNT.

To Loss on Realn.	£500	By Balance	£2,000
„ Brown Capl. A/c.	400		
„ Cash	1,100		
	£2,000		£2,000

BROWN CAPITAL ACCOUNT.

To Balance	£700	By Black—4,000/6,000ths ..	£800
„ Loss on Realn.	500	„ White—2,000/6,000ths ..	400
	£1,200		£1,200

CASH ACCOUNT.

To Realisation A/c.	£8,500	By Sundry Creditors	£4,700
		„ Black	2,700
		„ White	1,100
	£8,500		£8,500

CHAPTER VII.

GOODWILL.

Nature of Goodwill.—Goodwill may be described as the advantage attaching to the situation, or the good name, of the connection, or the reputation of the proprietors of a business, or any two or more of these qualities.

Viewed as an asset in a business it is obvious that goodwill is an asset of an intangible nature, but this intangibility does not affect its reality. Take the case of a trader who has been in business for a number of years and desires to sell out. He has had to stand the initial risk and expense of commencing the business. He has had to conduct the business through good times and bad and carry it on in such a way that the business has gained the confidence of his creditors and customers. It could not be expected that this trader would sell his business at the bare value of the assets utilised by him in carrying it on. It is certain that he would require some payment in addition for the connection he has established which is admittedly valuable. This additional payment is for what is known as goodwill and the fact that the purchaser of such a business would be willing to pay any amount in reason under this heading indicates that it has a very real value.

The circumstances which give rise to goodwill vary according to the nature of the business. In some concerns the goodwill will consist of the right to carry on business in a certain position, as in the case of an hotel. In a professional business, e.g., a solicitors', the goodwill attaches to the personality of the proprietors, as the connection has been established by the personal attention given by the proprietors to the affairs of their clients and by the confidence which the clients have in their personal skill. In trading concerns the goodwill generally attaches to the right to use the name under which the business has been trading, which name has become favorably known to the general public. In a retail business, however, the goodwill often attaches to the situation of the business as a considerable portion of the business done may be "catch" trade. In a general work of this nature it is not necessary to go into this portion of the subject fully, but it is thought that sufficient has been said to indicate the nature of this asset and the qualities which may give rise to goodwill in different classes of business.

Valuation of Goodwill.—It is hardly necessary to point out that it is impossible to lay down any fixed rules for ascertaining the value of the goodwill of a business. In a professional business, for example, where the goodwill attaches more to the personality of the proprietors, it may, in the event of a sale of the business, have little value seeing that the persons whose connection with the firm has resulted in the establishment of the goodwill are going out. On the other hand the goodwill of a professional business may be particularly valuable where a new partner is buying in and the old partners retain their connection with the firm. The purchaser of an hotel business, or of any business where the goodwill attaches to the position, will require to make certain that he can obtain a reasonable lease of the premises before paying any considerable amount for goodwill. In every case the whole of the circumstances must be gone into thoroughly in order to ascertain whether the purchaser of the business will secure similar advantages to those enjoyed by his predecessor.

Coming now to ordinary trading concerns, where goodwill is perhaps capable of more satisfactory valuation, the usual method of ascertaining the value of the goodwill, as laid down by most text books, is that it is worth, according to circumstances, from one to five years' purchase of the average profits ascertained over a period of, say, three years. Against such profits must be charged interest on capital at the current rate (say 5 per cent.) and all the necessary expenses of carrying on the business, including reasonable salaries for the proprietors.

To give a simple illustration of the above: A partnership business which shows an average annual profit over the past three years of £3000 is being acquired by a limited company, formed to take it over. No salaries had been taken by the two partners, whose services are estimated as worth £7 and £6 per week respectively. The capital employed in the business was £10,000. Assuming that a reasonable tenure of the old premises could be obtained (if such premises were essential or specially advantageous to the business, the value of the goodwill would, generally speaking, be ascertained as under:

Average annual profits		£3.000
Less Partners' salaries	£676	
,, Interest on Capital at 5 per cent. ..	500	
		1,176
Annual profits for goodwill purposes		£1,824

Calculated on a three years' basis the goodwill, according to this method of showing, would be worth £5472. In numbers

of cases the method supplied above would give just about the value of the goodwill of the business, the risk of loss of capital, loss of premises, etc., being taken into account in assessing the number of years' purchase that the goodwill may be considered to be worth.

Some check may be obtained on the results shown by ascertaining what return will be received by the purchasers of the business on the capital which they will be required to invest therein. For example, in the illustration supplied, assuming that the company is taking over the assets and liabilities at their book values, the capital required by the company will be about £15,500. Assuming also that the company will earn the average annual profits shown above, £3000, and that the business can be efficiently managed at a cost of say £800 per annum, this will leave £2200 per annum net profit or a return of about 14.2 per cent. on the capital invested. Allowing for the necessary reserves and the writing down of goodwill this should enable a dividend of about 10 per cent. to be paid to shareholders and this would probably, under the circumstances, be viewed as a satisfactory return. This indicates that the amount to be paid for the goodwill of this business would be just about its full value.

From a practical point of view the promoters of a company formed to take over a business would test whether the amount asked for the goodwill of such business were reasonable or not more by the anticipated return on the capital required in the business than by the number of years' purchase of the profits asked for. Cases might be quoted where an amount equivalent to 8 or 9 years' profits has been paid for concerns showing a large return on a comparatively small capital. It is clear therefore that, whilst the value of the goodwill of a trading concern is almost invariably expressed as being worth so many years' purchase of the average annual profits, it is more often ascertained by capitalising at a reasonable percentage the average annual return which it would show to the purchaser, taking the difference between the amount ascertained and the net value of the tangible assets transferred as the value of the goodwill.

It will be readily understood that the goodwill of a business will be of greater value to the purchaser if he is able to secure the services of the late proprietor to conduct the business for him. This does not apply, of course, where the goodwill attaches solely to the situation of the business but, in most cases, it is fairly certain that, where the assistance of the vendors is secured, the purchaser will have a greater assurance that he will receive the whole of the benefits enjoyed by his predecessors. It is for this reason that a company, which generally arranges that the vendors will act as managers of

the company, can pay with safety more for the goodwill of a business than a private purchaser who intends to fulfil himself the duties of his predecessors.

Restrictions on the Vendor of Goodwill.—Where the goodwill of a business has been sold it is usual to require the vendor to enter into an agreement not to compete with the purchaser in the way of business and, if the restrictions included in the agreement are reasonable and necessary for the protection of the purchaser, this agreement will hold good and the vendor will be restrained from breaking the contract entered into.

Where, however, there has been no such agreement, although the value of the goodwill will depend in most cases upon the absence of competition on the part of the vendor, there is nothing to prevent the latter from setting up in business of a similar nature for himself, when and where it may please him. He must not, of course, use the name under which he previously traded, seeing that the right to use that name in most cases goes to the purchaser of the goodwill. There is nothing to prevent him from dealing with the customers of the business previously owned by him, provided such customers seek him, but he must not circularise or in other ways actively solicit business from these customers.

Treatment in the Books.—It may be taken as a general rule that goodwill should not be brought into account until it becomes necessary owing to the fact that some monetary or other consideration has been given or received therefor. Such being the case it will be seen that the question of the book entries required to bring goodwill into account will only arise on the sale or purchase of a business or on the admission or retirement of a partner, and it is only necessary therefore to deal with this portion of the subject from these standpoints.

The Purchaser.—In the books of the purchaser the amount paid for goodwill will appear as an asset, being treated in the same way as any other asset taken over from the vendor. Goodwill account will be debited and the vendor credited with the amount paid for that asset.

The Vendor.—In the books of the vendor it is neither usual nor necessary to open an account for goodwill where consideration is received for this asset. All the assets appearing in the books will be transferred in the usual way to the debit of Realisation account and the total amount received as consideration for the business credited to that account. The amount received for goodwill will thus tend to increase the profit or decrease the loss on realisation of

the assets appearing in the books, the profit or loss thus shown being treated in the usual way by transfer to the Capital account or accounts of the proprietor or proprietors.

The above procedure presents no difficulties and it has been included merely for the sake of completeness. The chief difficulty in connection with the recording of transactions relating to goodwill seems to be in the case of adjustments between partners in the event of the retirement of one or more partners or the introduction of a new partner. There is nothing inherently difficult in these adjustments and it is thought that a careful study of the following should make the entries in the books under such circumstances quite clear.

Retirement of a Partner.—Where a partner is retiring from a firm his Capital account will show, assuming that profits have been adjusted and that the books are properly kept, what is his share of such assets as are included in the books. But it is quite possible that the firm may possess an asset, such as goodwill, which is not shown in the books, and the retiring partner can quite legitimately claim his share of any such asset or assets. Where the business is an old established one it is clear that, if the business as a whole were sold, something would be received for the goodwill and it therefore follows that the firm possesses an asset which has, perhaps, not yet been brought into account.

This asset belongs to the partners in the proportion in which they have been sharing profits, and, assuming that the value of the goodwill has been agreed upon between them, the retiring partner can claim to have this amount paid to him in addition to his share of the remaining assets, represented, in most cases, by the balance standing at credit of his Capital account after adjusting profits, etc. The entries to be made can best be explained by illustration.

Black, White and Brown are in partnership, sharing profits in the proportion of one-half, one-third, and one-sixth. Brown is retiring and claims to be paid his share of the goodwill, which is agreed by the partners to be worth £1200. The following entry shows how the goodwill would be brought into the books and its division between the partners:

Goodwill Account	Dr.	£1,200	
To Black Capital A/c			£600
,, White ,, ...			400
,, Brown ,, ...			200

Brown would be paid the balance of his Capital account, which then includes his share of the goodwill.

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It should be noted, however, that under such circumstances it is not usual to bring the full value of the goodwill into account, as the remaining partners do not usually desire to have goodwill appearing in the books at a larger amount than is necessary. The probability is that, in the above case, the only entry made would be a debit to Goodwill account and a credit to Brown's Capital account for his share of the goodwill, £200.

Introduction of a New Partner.—A person desiring to be taken into partnership in an established firm naturally expects to pay, in addition to the amount of actual capital required from him, some bonus for admission, seeing that he is seeking introduction into a successful concern and the element of risk which would exist in buying into a new business is to all intents and purposes eliminated. The amount of the bonus to be paid will be a matter for negotiation between the firm and the incoming partner, but, assuming that an agreement has been arrived at, it is necessary then to consider the entries to be made in the books in connection therewith.

These entries require, perhaps, a little more explanation than those to be made on the retirement of a partner, as there are several different ways in which the amount paid for goodwill can be treated, the particular method to be adopted in each case depending upon the arrangement made between the parties. The goodwill of a business as at the date of the introduction of a new partner is, of course, the property of the old proprietors and they are entitled to share in its value in the proportion in which they have taken profits up to the date when the new partner is admitted.

The incoming partner will only be required to pay as a bonus a proportion of the total value of the goodwill, and this proportion will be the ratio in which he is to share profits; e.g., if the goodwill is estimated as being worth £6000 and he is entitled to one-third share of the profits after being admitted, the amount of his bonus will be £2000. In other words, if he is to take one-third share of the profits he will have to pay as a bonus for admission one-third share of the value of the goodwill.

An illustration will perhaps be the simplest and shortest way to explain the various ways in which goodwill may be treated where an incoming partner is required to pay a bonus for admission:—

Simpson and Morris are in partnership, their capital being £3000 and £2000 respectively, and they share profits

in proportion to their capital. They decide to take Johnson into partnership upon his introducing £3000 as capital and paying £1000 as a bonus for goodwill, the arrangement being that the three partners are to share profits equally. The various methods of treating this transaction in the books are as follow:—

(a) Johnson may pay £1000 to Simpson and Morris outside the business altogether. This £1000 will be divided between Simpson and Morris in the proportion in which they have been sharing profits, viz., three-fifths and two-fifths. This method can hardly be recommended as no record of the transaction will be made in the books of the firm, and it can only be used in the absence of an agreement that the amount paid by Johnson for goodwill is to be left in the business. The capital introduced by Johnson will, of course, be credited in the usual way to his Capital account.

(b) If it is arranged, as is usually the case, that the amount paid for goodwill by Johnson is to be left in the business, the amount of £1000 could be paid to the firm's banking account and credited to the Capital accounts of Simpson and Morris in the proportion of three-fifths and two-fifths, Simpson being credited with £600 and Morris with £400. This is the most common and perhaps the best method of dealing with the transaction, seeing that it does not involve the necessity of raising a Goodwill account in the books of the firm.

(c) If it is desired that the Goodwill account should be opened and shown in the books at its full valuation the following method should be adopted. It will be seen that, if Johnson has to pay £1000 in purchase of one-third share of the goodwill (as he is taking one-third share of the profits), the total value of the goodwill must be £3000. This goodwill belongs of course to Simpson and Morris and, if the present method of treatment is desired, the following entries should be passed:—

Goodwill A/c .. .. Dr.	£3,000	
To Simpson Capital A/c		£1,800
„ Morris „		1,200

The £1000 paid in by Johnson for goodwill will then be credited to his capital account and the partners' Capital accounts will appear as follows:—Simpson, £4,800; Morris, £3,200; Johnson, £4,000.

An important point arises in connection with the amount to be paid by an incoming partner where goodwill already appears in the books either at its full value or at something less than this amount. It is obvious that, if the goodwill already appears in the books of the firm at its full value, the incoming partner, upon payment of the amount of capital required of him by the firm, purchases thereby his share of such goodwill and no additional payment can be required of him in connection therewith.

To give a simple illustration. Suppose that the following is the Balance Sheet of A, B and C, who propose to take in D as a partner upon his contributing capital equal to their own.

BALANCE SHEET.

LIABILITIES.		ASSETS.	
A. Capital Account	£4,000	Goodwill	£4,000
B. "	4,000	Sundry Assets, including	
C. "	4,000	Cash	8,000
	£12,000		£12,000

When D pays in £4000 the Sundry Assets will be increased to £12,000 and D.'s Capital account, £4000, will appear on the other side of the Balance Sheet. Assuming that goodwill is stated in the books at its full value, D will then have acquired a one-fourth share of the whole of the assets of the business, including goodwill.

Suppose, however, that in the case illustrated above, the goodwill is now worth £6000 and the partners require D in addition to contributing capital equal to their own, to make an additional payment on account of goodwill. Assuming that D is to receive one-fourth of the profits, it is clear that it will be necessary for him to purchase one-fourth share of the increased value of the goodwill, viz., £2000. If A, B and C have been sharing profits equally they will be entitled to the £500 paid by D in equal proportions, or, if they desire this payment to remain in the business, the goodwill should be written up to its present value by the following entry:

Goodwill Account .. .. Dr.	£2,000		
To A. Capital A/c.		£666 13 4	
" B. "		666 13 4	
" C. "		666 13 4	

D will then be entitled to have the £500 paid in by him on account of the goodwill, credited to his Capital account and he should pay in an additional £166/13/4 to make his capital equal to that of the remaining partners.

A similar point arises in connection with the adjustment of goodwill on the retirement of a partner where the item of goodwill already stands in the books. A retiring partner would, under such circumstances, only be entitled to be credited with his share of any increase in the value of the goodwill, as his Capital account already shows his share of those assets (including goodwill) already appearing in the books.

Depreciation of Goodwill.—Assuming that goodwill has been brought in the books at a proper valuation, and that the business is being conducted along sound lines, it is not necessary that any provision should be made for depreciation of the asset, as, under such circumstances, it would tend to appreciate rather than depreciate in value. As, however, this item in the Balance Sheet of a company is viewed by investors with a certain amount of suspicion, it is often decided to reduce from time to time, out of profits, the amount at which goodwill appears in the books, with the object of ultimately writing it off altogether. Any amount so written off should be treated as an appropriation of profits and not as a charge against profits.

From the point of view of policy it is perhaps better to provide a Depreciation Reserve for goodwill than to write the item out of the books altogether. This reserve might be shown as a deduction from goodwill on the Assets side and, even when the reserve account equals the amount of the Goodwill account, the items should be stated short on the Assets side. If this course is followed the fact that the company has adopted the commendable course of writing off the whole of its goodwill out of profits cannot be lost sight of, as might be the case if the item disappeared from the Balance Sheet altogether.

CHAPTER VIII.

RESERVES, RESERVE FUNDS AND SINKING FUNDS.

It was shown in Chapter III., dealing with balance-day adjustments, that, before a concern can arrive at the amount of its actual profits, it must make provision for such losses as have been occasioned by a deterioration in the values of the assets used in earning the profits; also that, if sufficient of the profits are not retained in the business to make good this deterioration in value, the concern is not keeping its capital intact. Provisions of this nature represent the bare minimum, where everything goes well, of what is necessary in order to enable the undertaking to be conducted permanently without requiring fresh capital to be introduced for the purpose of replacing that which has been lost.

It is now proposed to consider those additional provisions which are commonly made for prudential reasons by those concerns which the proprietors or directors desire to be conducted on sound lines. These additional provisions are what are known as "Reserves." As the creation of reserves of this nature is confined practically to limited companies, seeing that in the case of businesses conducted by sole traders or partnerships surplus profits are transferred to the credit of the capital accounts of the proprietors, it is thought desirable to deal with this subject in connection with the accounts of companies only.

It has already been pointed out that, where a company has made a profit during a financial year, this naturally results in an increase in the net assets of the business and, assuming that, before the net profits have been arrived at, ample provision has been made for depreciation and other charges, there is no reason why the company should not distribute this accretion to the assets amongst its shareholders by way of dividend. In many cases it is deemed prudent that the whole of the profits so ascertained should not be distributed in this way, but that a portion of them should be retained in the business, either for the purpose of supplying the company with additional trading funds, thus strengthening the financial position of the business, or for some other specific reason.

It should be clear that, if it is desired to retain a portion of the increase in assets, represented by the balance of Appropriation account, in the business, such proportion should not be left in that account, as this would lead to the impression that the amount is likely to be distributed amongst the shareholders at any time. It is usual and desirable, therefore, to transfer so much of the credit balance in Appropriation account as represents the assets which it is desired to reserve to a Reserve account, which account will be ranked in the Balance Sheet amongst the liabilities. Any transfers to Reserve account should be made from the Appropriation account, as the transfer is of the nature of an Appropriation of profits rather than a charge against profits.

The distinction between such a transfer and a transfer to an account such as Doubtful Debts Reserve account is clear, as the latter is a provision out of the profits for an anticipated loss on book debts, and the credit balance may be viewed as an offset against the estimated over-statement of Sundry Debtors. An asset of the nature of Book Debts cannot be accurately valued, and it is a matter of impossibility to state this asset, at the exact value to the business. It is usual, therefore, to include this item in the Balance Sheet at the full amount at which it appears in the books, and, so that the position of the business will not be overstated, to build up a special reserve as an offset against the assets in question. Indeed, it is quite common to see a Doubtful Debts Reserve deducted from the amount of Sundry Debtors in the Balance Sheet, instead of being stated separately on the liabilities side.

Returning to the subject of general reserves it should be noted that the transfer from Appropriation account is merely the indication that the business possesses a reserve of that amount. The assets themselves which make up the reserve were in the business before the transfer was made and the balance standing at credit of the Reserve account is the measure of the assets which might have been distributed amongst the shareholders by way of dividend, but which have been left in the business.

Where the object of creating a reserve is merely for the purpose of adding to the available trading assets of the business, and in this way strengthening the resources, nothing further than the book transfer already referred to is necessary, but where the object in creating a reserve is to provide the business with additional cash resources, which can be readily availed of, something further is necessary. An amount in cash equivalent to the amount of the transfer to the Reserve account should be withdrawn from the business and invested

in some securities of a readily realisable nature, this transaction, of course, resulting in a credit to Cash account and a debit to some account representing the securities. This investment becomes a Reserve Fund, using the word "fund" in its generally accepted sense; i.e., as an invested sum of money which may be drawn on as occasion requires.

A considerable amount of discussion has been provoked by the different uses made of the terms "reserve" and "reserve fund" on the part of various writers. There appears to be no difference of opinion as to the method of creating the reserve or as to its treatment in the books where it is invested outside the business; the chief difficulty appears to arise over what the reserve is to be called when it has been created. Mr. F. W. Pixley, F.C.A., in his work, "The Duties and Responsibilities of Auditors," states that, where the reserve is used in the business, the item on the liabilities side of the Balance Sheet should be shown as a "Reserve," but, if the reserve is invested in outside securities, the item should be stated on the liabilities side of the Balance Sheet as a "Reserve Fund."

Professor Dicksee, in his "Advanced Accounting" deplores the fact that there is a degree of uncertainty with regard to the exact meaning of these important items, but admits that there is a very general impression on the part of the public that the term "Reserve Fund" signifies that a corresponding amount of profits has been retained by the company and invested to provide against future contingencies. He then proceeds to state that, in his opinion the provision can be called a "Reserve Fund" when it is not invested in outside securities.

It cannot be said that the views put forward by the last-mentioned author will tend to lessen the uncertainty which he deplores to any appreciable extent, as the distinction which he makes between a reserve and a reserve fund is one which, whilst it may be clear to an accountant, could hardly be appreciated by the general public. Professor Dicksee's view is that the term "Reserve" should be applied only to those provisions which are properly charges against profits, such as doubtful debts reserves, whilst a "Reserves Fund" designates true net profits, which might have been divided as such, but which have been reserved or capitalised pro tem., whether such reserves are used in the business or invested outside.

The writer submits that neither of these authors presents the exact state of affairs. Professor Dicksee's contention that no distinction should be made in the nomenclature of the account appearing on the liabilities side of the Balance Sheet

whether the reserve is used within the business or invested outside must be taken as correct, seeing that this account is merely the measure of the addition to the assets of the business and cannot naturally be expected to indicate the nature of the assets comprising the reserves.

It is considered, however, that both of the authors quoted are wrong in applying the term "Fund" to any credit balance appearing in the books, as a "fund" must necessarily be an asset. It is thought that the mistake has arisen through confusing the credit balance in the Reserve account with the actual reserve itself. It should not be overlooked that it is the accretion to the assets which is the actual reserve, the balance of the Reserve account merely serving to indicate the extent of the accretion.

Reference to any dictionary will disclose the fact that the meaning of the word "fund" is such that it can only be applied to an asset, and, this being the case, it is clearly incorrect to apply this term to a credit balance in the books, or to show the item "Reserve Fund" amongst the accounts appearing on the liabilities side of a Balance Sheet. The Reserve is composed of the asset or assets which are withheld from the shareholders and retained in the business; it may be spread over a number of the assets, for example, represented by an increase in book debts, stock, etc., or it may be specially invested; but it is obvious that it cannot be labelled a reserve "Fund" unless it has been specifically set aside and is composed of outside securities.

The position is, therefore, that the item on the liabilities side of the Balance Sheet should always be shown as "Reserve," whether the assets of which the reserve is composed are used in the business or invested outside. Where, however, the reserve is invested in outside securities the item "Reserve Fund" may be shown amongst the assets. Where a reserve has been created for a special purpose, e.g., to meet an anticipated loss, this should be clearly indicated in the Balance Sheet. The following example should make the position clear:

The Balance Sheet of the X.Y.Z. Co. Ltd., on the 1st January appears as under:—

LIABILITIES.		ASSETS.	
Capital	£50,000	Sundry Assets	£50,000
	£50,000		£50,000

On the 31st December, in the same year, after due provision had been made for depreciation and doubtful debts, the position was shown to be as follows:—

LIABILITIES.		ASSETS.	
Capital	£50,000	Sundry Assets	£60,100
Doubtful Debts Reserve ..	100		
Profit and Loss A/c.	10,000		
	£60,100		£60,100

It was decided by the directors that only £8,000 of the profits disclosed should be distributed amongst the shareholders, the balance being transferred to form the nucleus of a reserve. Assuming that the dividend of £8,000 has been paid, the Balance Sheet would then appear as under:—

LIABILITIES.		ASSETS.	
Capital	£50,000	Sundry Assets	£52,100
Doubtful Debts Reserve ..	100		
Reserve	2,000		
	£52,100		£52,100

If the directors had decided that the reserve was to be invested outside the business, cash to that amount would be withdrawn from the business and securities purchased. The Balance Sheet would then appear as under:—

LIABILITIES.		ASSETS.	
Capital	£50,000	Sundry Assets	£50,100
Doubtful Debts Reserve ..	100	Reserve Fund: N.S.W. Government 3½ per cent. Debs.	2,000
Reserve	2,000		
	£52,100		£52,100

The method of treatment indicated above illustrates in a practical manner the view apparently adopted by Mr. Justice Nevill, in Gilbert v. Measures Bros. (Acct. L.R., June 19th 1909). In that case the company undertook in one of the clauses of the Debenture Trust Deed that the aggregate value of the stock-in-trade, the reserve fund, book debts, and cash should never be less than £100,000. The company had reserve fund investments amounting to £40,000, but half of these investments were subsequently realised and the proceeds sunk in fixed assets in connection with a branch opened up by the company. The plaintiff was of opinion that the realisation of these investments and the use of the proceeds in the business reduced the reserve fund to £20,000, and as this involved a reduction in the aggregate value of the assets mentioned above to less than £100,000, he applied for the

appointment of a receiver and manager, on the grounds that the company had committed a breach of the Debenture Trust Deed. Counsel on behalf of the company argued that the investment of £20,000 in the branch property remained as much a portion of the reserve fund as ever it was. Mr. Justice Nevill, however, apparently supported the view that a reserve fund consisted of investments outside the business, as he granted the appointment of a receiver and manager on behalf of the debenture holders as sought by the plaintiff.

Where profits are reserved for a special purpose, e.g., for the purpose of equalising dividends, it is advisable that the item appearing on the liabilities side of the Balance Sheet should indicate that such is the case. It might be noted in passing that, where a company makes a transfer to the Reserve account, it may at any time bring this amount back into Appropriation account and distribute it amongst the shareholders by way of dividend. If such reserve has been invested outside the business it will be necessary to realise investments equalling the amount of the re-transfer to Appropriation account in order to enable the dividend to be paid without depleting the company's ordinary floating assets.

The item "Reserve for Depreciation," may be found figuring on the liabilities side of the Balance Sheet of some companies. Transfers to a Reserve account of this nature would, of course, be a charge against profits, and would be debited to Profit and Loss account before the actual net profit was ascertained. A reserve for depreciation is raised by crediting that account with the usual charge for depreciation instead of crediting the account of the asset or assets and reducing them in the books of the company. Such a reserve is, of course, merely an offset against a corresponding overstatement of the value of the assets on the other side of the Balance Sheet. It is always advisable, where practicable, to actually write the charge for depreciation off the assets, but it may be found in some cases that it is inconvenient to adopt this method (e.g., where there are constant and frequent additions to plant and it is considered advisable to calculate depreciation on the original amount in each case), and the best course is to open a Reserve account of the nature referred to.

SECRET RESERVE.—This is a term applied to a reserve which is not disclosed in the company's Balance Sheet. It is clear that, if a company possesses a reserve, it can only remain undisclosed by an over-statement of the liabilities or by an under-statement of the assets. The company may have a credit balance in the Reserve account which the directors are desirous of not disclosing in the Balance Sheet. This can

only be done by including the amount of the Reserve account amongst the outside liabilities, or by deducting the balance of that account from one or more of the assets, otherwise the totals of the two sides of the Balance Sheet will not agree.

The same result can be obtained, even where the company has not an actual Reserve account in its books, by writing down the assets out of profits to considerably less than their real value.

The question of the propriety of a company having a reserve which is not disclosed in the Balance Sheet has been much discussed, and it is one which naturally gives rise to considerable differences of opinion. It is urged, on the one hand, that it is essential that there should be secret reserves in some companies, more especially financial concerns, whose profits are liable to considerable fluctuation. Such reserves will enable them to stand exceptional losses and, perhaps, to pay the usual dividends in times of financial stress without the fact that the companies have suffered losses appearing in the published statements. The fact that such reserves might be necessary in some cases was recognised in the Birmingham Small Arms case.

On the other hand, it is pointed out that the fact that the position of the company may be considerably understated under such circumstances, leaves an opening for dishonest directors to profit at the expense of the other shareholders, who are ignorant of the existence of the reserves. Instances might be quoted where directors have caused large amounts to be written off the value of the assets, thus causing the actual profits of a company to be considerably understated. This has had the effect of causing the shares to remain at a low figure on the market and the directors have quietly acquired the shares at considerably less than their real value. When they have thus obtained sufficient of the shares to satisfy themselves they have then permitted the profits of the company to suffer a recovery, which has in turn resulted in a considerable increase in the market value of the shares.

It will be seen that there is a good deal which can be legitimately said on both sides of the question, and the safety of creating secret reserves will depend a good deal upon the class of director possessed by a company. Save under exceptional circumstances, the best course to adopt is to disclose the reserve in the Balance Sheet in the usual way, and, where necessary, make transfers from the Reserve account.

SINKING FUNDS.—A Sinking Fund may be established where it is desired at the end of a given period to have

the money available to pay off some known liability or to renew a wasting asset without depleting the working capital.

Where a company has borrowed money on debentures which are repayable at the end of a given term, it is usual to provide for their repayment out of profits; but, as has already been shown, the mere book entry making a transfer from profits to a Reserve account does not result in the creation of a "Fund" to meet requirements under circumstances such as are now being considered. The same remarks apply where a considerable sum of money will be required at a future date to replace wasting assets. The creation of a reserve does, of course, result in an increase in the assets of a business, but this increase may be spread over a number of assets and the sudden withdrawal of a reserve used in this way would, in most cases, seriously handicap the business.

When, therefore, it is desired to have the amount of the reserve in such a form that it can be withdrawn from the business when required, without the serious effect referred to, the profits kept back from the shareholders must be invested outside the business and, under such circumstances, would take the form of a Sinking Fund.

The method of creating such a fund follows very closely the procedure indicated in the formation of a Reserve Fund. A transfer is made from Appropriation account to the credit of a special Reserve account, usually called Sinking Fund Reserve account, and a corresponding amount of cash is invested outside the business. A difference exists, however, in the treatment of the interest on the investments in the two cases. Interest on reserve fund investments is usually credited to Profit and Loss account, while the interest on the sinking fund investments must be credited to the Sinking Fund Reserve account, and the amount received in cash re-invested with the next instalment. Each year during the currency of the term a transfer is made from Appropriation account to the Sinking Fund Reserve account, and a corresponding amount withdrawn and invested, together with the interest received on the investments previously made. A reference to interest and annuity tables will be necessary to enable the required amount of the annual instalment to be arrived at, as it is clear that, as these instalments are accumulating at compound-interest the amount of the instalment will be considerably less than it would be if the interest were credited to Profit and Loss account. In arriving at the amount of these instalments some allowance should be made for the fact that time may be

lost in making the investment and also for the fact that the value of the investments may have decreased somewhat by the time they require to be realised.

Dealing first of all with the procedure in connection with the repayment of debentures, investments should be held equalling the amount of the loan to be repaid by the time they fall due. These investments will be realised and an entry passed debiting Cash and crediting the Investments account, any deficiency occasioned by a fall in value in the investments being transferred to the debit of Profit and Loss account. On the other hand if the investments are realised at a profit, this may be transferred to Profit and Loss account, although the wiser course is to transfer the account to Reserve account. With the money made available by the realisation of the investments the debentures will then be paid off, involving a credit to Cash account and a debit to Debenture account. The credit balance in Sinking Fund Reserve account, which will, of course, equal the debit balance in the Sinking Fund Investments account all along and which shows the extent of the profits withheld from the shareholders in the creation of the Sinking Fund, will then be transferred to the credit of a Reserve account.

The repayment of a liability out of profits must always result in the creation of a reserve, seeing that the debentures have been repaid out of the increase in assets resulting from the making of profits, the amount originally borrowed thus being retained in the business. During the term of the creation of the Sinking Fund the transfer should always be made to a special Reserve account, termed Sinking Fund Reserve account, in order to indicate that profits have been set aside for a specific purpose, but when the debentures have been paid off the balance of the Sinking Fund Reserve can then be transferred to the general Reserve account. Any transfers to Sinking Fund Reserve account in connection with the repayment of a loan should, of course, be treated as an appropriation of profits and so be charged to Appropriation account.

EXAMPLE No. 8.—The following will illustrate the working of a Sinking Fund set up to repay in five years a sum of £20,000 borrowed on debentures. It is assumed that the investments bear interest at the rate of 3½ per cent. per annum, and that the money was borrowed on the 1st January, 1916, the first appropriation of profits being made on the 31st December in that year.

SINKING FUND RESERVE ACCOUNT.

	£	s.	d.		£	s.	d.
1921.				1916.			
Jan. 1—To Reserve Account	20,000	0	0	Dec. 31—By Appropriation Account	3,730	0	0
„ Profit and Loss Account	1	18	10	1917.			
				Dec. 31— „ Appropriation Account	3,730	0	0
				„ Interest on £3730	130	11	0
				1918.			
				Dec. 31— „ Appropriation Account	3,730	0	0
				„ Interest on £7590/11/	265	13	0
				1919.			
				Dec. 31— „ Appropriation Account	3,730	0	0
				„ Interest on £11,586/4/	405	10	2
				1920.			
				Dec. 31— „ Appropriation Account	3,730	0	0
				„ Interest on £15,721/14/2	550	4	8
	£20,001	18	10		£20,001	18	10

SINKING FUND INVESTMENT ACCOUNT. ($3\frac{1}{2}$ per cent. Queensland Government Debentures).

	£	s.	d.		£	s.	d.
1916.				1920.			
Dec. 31—To Cash	3,730	0	0	Dec. 31—By Cash (realisation)	15,721	14	2
1917.							
Dec. 31— „ „	3,860	11	0				
1918.							
Dec. 31— „ „	3,995	13	0				
1919.							
Dec. 31— „ „	4,135	10	2				
	£15,721	14	2		£15,721	14	2

DEBENTURE ACCOUNT.

Dec. 31, 1920.—To Cash ..£20,000	Jan. 1, 1916. By Sundry Debenture Holders £20,000

NOTE.—The amount of the instalment for 1920, together with interest received on the investments on the last day in that year must not be invested, as the money will be required on that date to be applied towards repayment of the debentures. The amount of cash received on realisation of the investments plus the 1920 instalment and interest received will together repay the £20,000 due to the Debenture holders. It will be noticed also that the amount set aside out of profits was in excess of actual requirements by £1/18/10, and this amount might be carried back to Profit and Loss account in order that an even sum may be transferred to the General Reserve.

Where it is desired to establish a fund for the purpose of renewing a wasting asset the procedure is similar to that described above, except that it is advisable to make transfers to the credit of Depreciation Reserve account, rather than to the credit of a Sinking Fund Reserve account as the former will indicate more closely the nature of the item appearing in the Balance Sheet. It is usual to call such a provision a Sinking Fund, although, strictly speaking, this term should only be applied to a fund created out of profits to redeem a liability. The periodical transfers will, of course take the place of the annual charges for depreciation and, as this is the case, the transfers to the Depreciation Reserve must be made from Profit and Loss account, as depreciation is a charge against profits rather than an appropriation of profits. By the time the asset, which it is sought to replace, has become useless, the amount of the investments should be sufficient to provide the necessary cash to acquire a new asset and the credit balance in the Depreciation Reserve account can be transferred to the old asset account, closing it off.

CHAPTER IX.

JOINT STOCK COMPANIES.

Following the procedure adopted in connection with Partnership Accounts, it is thought advisable, before dealing with the actual accounts of companies, to devote some space

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TASMANIA.

SPECIAL NOTE.

Since this and the next succeeding chapters were set up a new Companies Act has come into operation in Tasmania. The new Act (1920), is almost an exact copy of the Victorian Companies Act relating to limited companies. In chapters IX. and X. Tasmanian practitioners and students should, so far as these chapters are concerned, read the law set down under the heading of Victoria as being applicable to their State with the following exceptions:—

Procedure to obtain registration; page 111.

In Tasmania 7 persons are required to sign the Memorandum of Association.

Published statements; page 125.

In Tasmania there is no necessity for a sealed copy of the private balance sheet to be filed with the Registrar, nor apparently need this private balance sheet be signed by two directors or managers. See Sec. 122 (7).

CHAPTER IX.

JOINT STOCK COMPANIES.

Following the procedure adopted in connection with Partnership Accounts, it is thought advisable, before dealing with the actual accounts of companies, to devote some space to treating as briefly as possible with certain portions of Company law, of which some knowledge is essential if the accounts peculiar to companies are to be properly understood.

It may be both interesting and instructive to consider briefly, in the first place, the origin and nature of companies. During the seventeenth century, in which a marked advance was made in British trading, the advantages accruing to traders and others by combining together for the purpose of conducting business ventures were first really appreciated. At that time the only methods by which persons associated together for the purpose of trading could be incorporated were (a) By Royal Charter, and (b) by special Act of Parliament. The expense and delay occasioned under both of these methods rendered them, in most cases, impracticable, and the great bulk of associations were formed under deeds of settlement, which contained the rules under which the associations were governed, each member undertaking to adhere to these rules. Trustees were appointed under a deed and the property belonging to an association was vested in such trustees, who carried on the business of the association in much the same way as the directors of present-day companies now do. Provision was also contained in the deed enabling members to transfer their interests in the association.

For a long time, the law apparently viewed these associations with a considerable amount of disfavour, and insisted on treating them as nothing more or less than huge partnerships, each member being held liable to the extent of his resources for the whole of the debts of the association. This was without doubt a considerable hardship upon the members seeing that, although they had practically no voice in the management of the association and nothing to do with incurring the debts, they were yet held liable as ordinary partners. In spite of this the number of such associations rapidly increased, and it was clear that some sort of legal recognition could not be long refused.

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At length, in 1844, an Act was passed requiring all such associations to register, and upon registration they were to be granted certificates of incorporation. Although this was a step in the right direction, this Act did not go far enough, as it contained a clause providing that all members or such associations were still to be held liable for the whole of the debts of the associations to which they belonged, as in the case of ordinary partnerships.

In 1862 an Act, providing for the incorporation of all associations registered under it and granting limited liability to the members of such registered association, was passed and it is upon this Act that the company legislation of practically all the English-speaking countries is based. Many amendments have from time to time been found necessary, but the main principles there laid down have been preserved.

This Act compelled all associations, consisting of more than twenty persons, combining together for the purpose of trading, or ten persons for the purpose of carrying on a banking business, to register, and made all associations consisting of more than the number mentioned, except those incorporated by Royal Charter, or under a special Act of Parliament, illegal. This idea has been followed throughout Australia, although the maximum number of persons who may form an association without being registered under the Companies Acts has been varied in some of the States.

The simplicity and inexpensiveness of the procedure in obtaining registration, and the advantages of obtaining limited liability for the members of such associations were soon recognised, and since the year last mentioned the number of companies registering in all parts of the Empire has increaed every year. There can be no doubt that the facilities given enabling persons to combine together under the limited liability system has to a very great extent been the cause of the tremendous expansion in trade during last century and this.

In some cases it is still found necessary to incorporate companies under special Acts of Parliament, but such companies are practically restricted to those which require to be endowed with compulsory powers, as, for instance, railway companies which may have to resume properties from private owners. There are also companies incorporated by Royal Charter still existing (e.g., Bank of Australasia), but this method of incorporation has, to quote Palmer, "always been sparingly exercised by the Crown, and the delay and expense in the proceedings for obtaining a charter—concurring with the reluctance of the Crown to grant—has for many years

past made a charter a very exceptional mode of incorporation."

The differences which exist in the company legislation of the various States and New Zealand render this subject rather a difficult one to deal with in a text-book intended to be applicable throughout Australasia. The main principles of the law, are, of course, the same, but there are considerable differences in procedure, and in no two States is the law exactly the same. It is proposed, however, to deal with those general matters which are applicable to all the States, where necessary noting any variations in procedure.

Procedure to Obtain Registration.—This is simplicity itself. Any seven or more persons (in Victoria, South Australia, and Western Australia, five or more persons) associated together for any lawful purpose may, by subscribing their names to a memorandum of association and otherwise complying with the requirements of the Act with regard to registration, form an incorporated company with or without limited liability.

The minimum unmber of persons mentioned above will require to prepare and sign a document called a Memorandum of Association setting out certain particulars, which are enumerated below, and file such document with the Registrar who, if he is satisfied that the requirements of the Act with regard to registration have been complied with will issue to the subscribers a certificate of incorporation. This Memorandum of Association is usually accompanied by Articles of Association. These articles are the rules and regulations governing the internal management of the company, and, in the case of certain classes of company articles must be prepared and filed with the Memorandum of Association. In the case of a company limited by shares, however, if the Memorandum is not accompanied by Articles of Association the company is deemed to have adopted a model set of articles given in Table A of the Companies Act.

The fees payable upon registration vary in the different States, being fixed on a sliding scale according to the amount of the Nominal Capital of the company registered.

The Memorandum of Association must be signed by the number of persons mentioned above or by their duly authorised agents, and these signatures must be witnessed. Each subscriber to the Memorandum undertakes to take the number of shares stated after his signature on the Memorandum, and he cannot take less than one share. The Act provides for the formation and registration of different classes of companies,

and these (omitting for the time being any reference to Mining Companies, which are dealt with in a later chapter) are as under:—

(a) Unlimited Companies. The provisions of the Act relating to this class of company are very rarely availed of, as such companies are merely of the nature of registered partnerships, each member being liable for the debts of the company to the extent of his resources, as in the case of a partnership. Practically the only occasion when such a company is registered is when it is desired to form a trading partnership of more than twenty persons, or a banking partnership of more than ten persons. The Memorandum of Association of an unlimited company must contain the following information:—

(a) The name of the company.

(b) The objects for which the company is formed.

(c) The situation of the registered office of the company.

(b) Companies Limited by Guarantee. This class of company is fairly common, but, for the most part, consists of societies which desire to be registered under the Act but which do not require any capital. Each member of such a company undertakes to contribute in the event of the company being wound up, for the purpose of discharging the liabilities of the company, such amount as may be required of him exceeding the amount specified in the Memorandum of Association. The Memorandum of Association of this class of company must contain the following particulars:—

(a) Name of the company with addition of the word "Limited" as the last word of such name.

(b) The situation of the registered office of the company.

(c) The objects for which the company is to be established.

(d) A declaration that each member undertakes to contribute to the assets of the company in the event of the same being wound up during the time he is a member, or within one year afterwards, for payment of the debts and liabilities of the company contracted before the time at which he ceases to be a member, and the costs,

charges, and expenses of winding up, and for the adjustment of the rights of the contributories amongst themselves such amount as may be required not exceeding a specified amount.

(c) Companies Limited by Shares. The large majority of companies registered are of this class, and it is this class of company which we will deal with almost exclusively in this and subsequent chapters relating to companies. The liability of a member of such a company is limited to the amount unpaid on the shares held by him, so that if his shares are fully paid he has no further liability. The Memorandum of Association must contain the following particulars:—

(a) The name of the company, with the addition of the word "Limited" as the last word of its name.

(b) The situation of the registered office ot the company.

(c) The objects for which the company is to be established.

(d) A declaration that the liability of members is limited.

(e) The amount of capital with which the company proposes to be registered, divided into shares of a certain fixed amount.

Note.—In Victoria, South Australia, Western Australia and New Zealand, it is not necessary to state the proposed situation of the registered office of the company in the Memorandum of Association, but this information must be supplied to the Registrar, and in all cases any alteration of the situation of the registered office must be notified.

The Nature of a Company.—It is perhaps advisable to explain concisely the exact nature of a company, and the effect of incorporation, as one frequently hears remarks which serve to indicate that these matters are not as fully understood as they might be. Upon the registration of the Memorandum and the granting of the certificate of incorporation the company comes into existence, and it must be remembered that it has an existence entirely apart from the persons comprising the company. In other words, a new legal person is brought into existence, certainly an artificial person, but none the less a person from a legal standpoint. It can sue and be sued in its own name. It can even be sued by one of its own mem-

bers for say, breach of contract. In this respect it is entirely different from an ordinary partnership.

A firm as a firm has no legal existence, and any action brought against it is in reality an action against the individual partners who comprise the firm. The members of a company might on one day sell their shares to other persons, so that the shareholders would then be an entirely different set of persons, but the company itself remains the same.

Another distinctive feature of a company is the fact that the shares are transferable. In an ordinary partnership this is not the case, as no partner can dispose of his share or any portion of it without the consent of the whole of the remaining partners. In some companies certain restrictions may be placed upon the transfer of shares, but any provision in the Memorandum or Articles of a company which would absolutely prevent a shareholder from disposing of his shares to anybody, would be totally opposed to the idea of company legislation, and would be held invalid.

Memorandum and Articles of Association.—When these documents are registered, they become binding upon the subscribers to the Memorandum, and also upon every person who subsequently becomes a member of the company. Every person who acquires shares in a company is as much bound by the provisions of the Memorandum and Articles as if he had subscribed his name and affixed his seal thereto. The Memorandum of Association, when once registered, is practically unalterable. There are certain provisions in the Companies Acts which enable a company, after registration, to modify the provisions of its Memorandum so as to vary its capital, or to alter within certain prescribed limitations its "Objects Clause." Apart from these special exceptions no alteration can be made to the Memorandum of Association. The Articles of Association may, however, be altered at any time by a special resolution of the members and a copy of any special resolution passed must be forwarded to the Registrar of Companies within fifteen days therefater.

Another and perhaps more important matter in connection with these documents is that every person having dealings with a company is fixed with notice of their contents, i.e., every person dealing with a company is deemed to know the contents of its Memorandum and Articles of Association. A company is an artificial person, created by law, and its power to enter into contracts is restricted by the powers given to it under its Memorandum and Articles of Association. If it agrees to do anything outside that which it is authorised to do under its Memorandum and Articles of Association it is not

bound thereby, and persons having dealings with a company, more especially in connection with contracts outside the ordinary course of business, should satisfy themselves, first of all, that it is authorised to enter into such contracts.

Capital of a Company.—The capital of a company of the class now being considered is divided into shares. A reference to the information which must be contained in the Memorandum of a company limited by shares will show that every such company must state in its Memorandum the amount of capital with which it proposes to be registered, divided into shares of a certain fixed amount. What the amount of capital is to be and the number of shares into which it is to be divided will, of course, be decided by the promotors of the company. The value of the shares can be set down at any proportion of the total capital, e.g., a company registered with a capital of £100,000 may have it divided into 100,000 shares of £1 each, or 10,000 shares of £10 each, or 2,000,000 shares of 1/ each; but the amount of each share must be fixed before the company is registered in order that it may be stated in the Memorandum. The members of the company are the holders of these shares.

Provision is contained in the Companies Act whereby a company can, if authorised so to do by its Articles of Association, increase its capital by the issue of new shares, consolidate and divide its capital into shares of a larger amount and, by passing a special resolution, sub-divide its existing shares into shares of a smaller amount; but in making this subdivision the proportion between the amount paid and the amount unpaid on each share must remain the same as it was prior to the subdivision. Notification of any of the alterations mentioned above must be given to the Registrar of Companies within fifteen days. Provision is also made whereby a company may, with the authority of the Court, reduce its capital. This matter is dealt with fully in a later chapter.

Shares.—A company may have its shares divided into different classes and the rights of the holders of the various classes of shares may differ considerably. Although it is not necessary to state in the Memorandum of Association the different classes into which the shares are to be divided and the number of shares of each class to be issued, as these may be defined in the Articles of Association, it is advisable, in order to render the rights of the various holders unalterable to specify the different classes of shares and the respective rights of the holders in the Memorandum. As already mentioned, a company can alter any or all of its Articles of Association by special resolution and, if the rights attaching to the various classes of shares are merely in the Articles,

the holders of shares carrying special privileges might find these nullified by an alteration of the Articles. The classes of shares most commonly issued are: Preference, Ordinary, and Deferred.

Preference Shares.—These confer upon the holders some special rights or privileges. They carry, almost invariably, a preferential claim for dividends, i.e., Preference Shareholders receive their full dividend before any distribution of profits is made amongst holders of other classes of shares. Prima facie, this preferential claim for dividend is cumulative, i.e., if the profits in any year are insufficient to pay the holders of such shares a full dividend, they are entitled to have this deficiency made good out of subsequent profits before shareholders of any other class participate, but the Memorandum or Articles may provide that the dividend is non-cumulative, i.e., payable as regards each year out of the profits of that year only.

It should be noted carefully, therefore, that the dividends on Preference Shares are cumulative, unless it is stated in the Memorandum or Articles that they are to be non-cumulative.

Preference Shares may carry other rights. They may, in the event of the company being wound up, give the holders a preferential claim over the assets of the company after the creditors have been paid off; but they do not carry this right unless it is specially provided for in the Memorandum or Articles of Association.

Ordinary Shares.—These do not confer any special rights or privileges upon the holders. The holders of these shares receive a dividend if there are any profits available after paying the amount due to the holders of Preference Shares. It will be seen that, if a company issues Preference and Ordinary Shares, there must be some fixed rate of dividend payable to the Preference Shareholders and, provided this percentage is duly paid, the remainder of the profits are then usually available for distribution amongst the holders of other classes of shares.

Deferred Shares.—The claims of the holders of these shares to dividend are deferred until those of Preference and Ordinary Shareholders are satisfied. Where Deferred Shares are issued the Ordinary Shares must also have the rate of dividend payable thereon fixed, and it sometimes happens that if a company is earning an exceptionally high rate of profits, the Deferred Shareholders are in a better position as regards dividend than either the Preference or Ordinary Shareholders.

Share Certificate or Scrip.—This is a document issued by a company to a shareholder certifying that he is the holder of the shares stated in the Certificate. Each share must be numbered, and the numbers of the shares held by each member are stated in his Certificate, which also has endorsed thereon the amount paid up on the shares included therein.

Stock.—The Act provides that a company may, if it so desires, and is authorised so to do by its regulations, issue Stock in the place of fully-paid up shares. Where the company decides to do this any holder of shares which are fully paid can, upon the surrender of his share certificate, have a Stock Certificate issued to him, which certifies, not that he is the holder of so many shares, but that he is the holder of the nominal value of the shares in Stock. For example, the possessor of 10 shares of £10 each, fully paid, would have issued to him a certificate stating that he was the holder of £100 of Stock. The chief difference between Stock and Shares is that any proportion of the stock may be transferred, whereas, in the case of shares, each share must be preserved intact. The holder referred to above could, whilst he held a share certificate, transfer the shares in multiples of ten only, whereas, now that he possesses Stock, he can sell, say, £45 worth.

Members of a Company.—In the case of a company limited by shares, the members are composed of the shareholders. The signatories to the Memorandum of Association, who must, as already stated, undertake to accept at least one share each in the company when signing their names, ipso facto become members of the company. The remaining members of the company are composed of those persons who have agreed to become members, and whose names are entered on the Register of Members. The different methods by which a person may become a member of a company might be set out as follow:—Firstly, by signing the Memorandum of Association prior to registration; secondly, by agreeing to take shares, and being placed on the Register of Members, thirdly, by accepting a transfer of shares and being placed on the Register of Members; fourthly, by estoppel, i.e., by allowing his name to remain on the Register of Members after he has knowledge that it has been entered thereon or in other ways holding himself out to be a member of a company.

Who May be Members.—Practically any person may be accepted as a member of a company. An infant is, however, rather an unsatisfactory person to have on the Register of Members, as he cannot be compelled to pay his calls, and he can, upon attaining his majority, repudiate his shares.

Liability of Members.—It should be noted that the liability of a holder of shares which are not fully paid up does not cease immediately upon his disposing of his shares. To summarise the provisions of the Act, every present and past member of a company is liable to contribute towards the assets of the company such sum as may be required of him, in order to pay the debts of the company, the expenses of winding-up, and to adjust the rights of the shareholders amongst themselves, provided that:—

(a) No past member who has ceased to be a member for one year or upwards prior to the commencement of winding-up shall be liable to contribute.

(b) No past member shall be liable to contribute in respect of any debt contracted by the company after the time at which he ceased to be a member.

(c) No past member shall be liable to contribute unless it appears to the Court or other authority that the present members are unable to pay the amounts required of them.

(d) In the case of a company limited by shares no contribution shall be required from any member exceeding the amount (if any) unpaid on the shares in respect of which he is liable as a present or past member.

Compulsory Books.—Every company limited by shares is required by the Companies Act to keep the following books:—

(a) A Minute Book to record the proceedings at directors' meetings and general meetings of the company.

(b) Register of Mortgages. This book must contain a record of every mortgage or charge given by the company over any of its assets, and must contain the following information:—

(i) A short description of the property or rights mortgaged or charged.

(ii.) The amount of charge created.

(iii.) The names of the mortgagees or persons entitled to charge.

If any mortgages or charges are given over any of the property or rights of the company, without any entry record-

ing that fact being made in the Register of Mortgages, every director, manager, or other officer of the company who authorises or permits the omission incurs a heavy penalty. This Register of Mortgages is open to the inspection of any creditor or member of the company, and the refusal to allow this inspection will render the officer of the company permitting the refusal liable to a penalty, and the Court may compel an immediate inspection of the Register to be granted.

(c) Register of Members. Every limited company must keep in one or more books a register of the members, which must contain the following particulars:—

(i) The names and addresses of the members of the company, stating the number of shares held by each and the distinguishing numbers of such shares, together with particulars of the amount paid or agreed to be considered as paid on the shares of each member.

(ii) The date at which the name of any person was entered in the Register as a member.

(iii) The date at which any person ceased to be a member.

This Register is open to the inspection of any member or any other person upon payment of one shilling.

Every company not having a capital divided into shares, e.g., a company limited by guarantee, must keep at the registered office of the company a Register containing the names and occupations of its directors or managers and shall send to the Registrar a copy of such Register and shall notify him from time to time of any changes which take place.

The Prospectus.—The promotors of companies frequently arrange for the necessary shares to be subscribed for privately, e.g., a partnership which promotes a company to acquire its business will arrange, in most cases, to distribute practically the whole of the shares amongst the members of the firm, merely getting sufficient additional members to make up the statutory number. These companies are of a private nature, and the necessity for the issue of a prospectus or for advertising to induce persons to subscribe for shares does not exist.

It often happens, however, that the promotors intend to invite the public to subscribe for shares in the company in

order to supply the required working capital and, where this is the case, it is necessary to notify the public of the nature and objects of the company and of the fact that the company is inviting subscriptions for shares. This is usually done by means of a prospectus and by publishing a summary of the information contained in the prospectus in the newspapers. Copies of the prospectus are distributed amongst the investing public who are by this means supplied with such information as they may require to enable them to judge whether or not the company will provide a sound investment for their capital.

The natural tendency amongst promotors is not to err on the side of pessimism when stating what they consider to be the prospects of the company, and it was found necessary to legislate in order to prevent any untrue statements being included in a prospectus and to ensure that the investing public would be supplied with all information which it could reasonably expect.

In every State in Australasia, with the exception of New South Wales, special provision has been included in the Companies Act detailing the information which must be contained in every prospectus issued. These provisions follow, to a greater or lesser extent, the provisions of the English Companies Act 1900. Seeing that the public has, in most cases to judge of the suitability of the proposed company for investment purposes solely by means of the information contained in the prospectus, it will be obvious that every care should be exercised by the promotors to ensure that the information contained therein is absolutely reliable.

In New Brunswick Co. v. Muggeridge, the following rule was laid down for the guidance of those issuing prospectuses inviting applications for shares. "Those who issue prospectuses holding out to the public the great advantages which will accrue to persons who will take shares in a proposed undertaking and inviting them to take shares on the faith of the representations therein contained, are bound to state everything with strict and scrupulous accuracy and, not only to abstain from stating as fact that which is not so, but to omit no one fact within their knowledge the existence of which might in any degree affect the nature or extent or quality of the privileges and advantages which the prospectus holds out as inducement to take shares."

In New South Wales the only information required by statute to be included in the prospectus is the disclosure of any contract entered into by the company, or on behalf of the proposed company, before the issue of the prospectus, to-

gether with the names of the parties to the contract and the date the contract was entered into. Any prospectus not specifying this information is fraudulent as regards any person taking shares on the faith of the prospectus.

In the case of a company formed to take over a trading concern it is usual for the promotors to instruct a professional accountant to investigate the books of the concern in order to ascertain the profits which have been made over a period of, say three to five years. This certificate is then usually published in the prospectus. The investigating accountant should confine his certificate to past results, and should refrain from offering any opinion as to what he anticipates are the future prospects of the company. He should also be particularly careful to see that he states clearly the profits for each year and not merely the average profits over the period covered by his investigation. Within the last few years the Council of the Institute of Chartered Accountants in England has found it necessary to suspend several members for allowing themselves to be persuaded into an infringement of these professional rules.

Quite frequently promotors do not register the company until after the prospectus has been issued and they have had an opportunity of judging whether the flotation is likely to be successful or otherwise. In this way the registration fees and fees for the preparation of the Memorandum and Articles are saved. Seeing, however, that no contracts can be entered into by the company until it is registered, this delay is often found inconvenient, and the most usual procedure is to register the company before flotation.

Assuming that the company has been registered by complying with the requirements of the Act as to the filing of a duly signed and attested Memorandum of Association and, where necessary, Articles of Association, it is now proposed to consider the further matters requiring attention on the part of the directors and other officers of a company.

Restriction on Allotment of Shares.—In Victoria no shares are to be alloted to applicants by the company unless the amount fixed in the Memorandum or Articles or named in the prospectus as the minimum subscription upon which the directors may proceed to allotment, or, if no amount is so fixed and named, then the whole amount of the share capital has been subscribed for and the amount payable on application has been paid to and received by or on behalf of the company. The amount payable on application must not be less than 5 per cent. of the nominal value of the shares applied for. In New Zealand the same provisions exist, but

the amount payable on application must not be less than 10 per cent. of the nominal value of each share.

In Victoria and New Zealand, if the conditions relating to minimum subscriptions are not complied with within three months (N.Z., 90 days) after the first issue of the prospectus, all application money is to be returned to the applicants and, if it is not returned within four months (N.Z., 98 days) from the date of issue of the prospectus, the directors are jointly and severally liable to repay the money, with interest at 5 per cent. per annum from the expiration of the time mentioned. The provisions relating to the minimum subscription (except as to the proportion payable on application) only apply to the first issues of shares of the company to the public, and they do not apply to private companies registered under the New Zealand Act. Any allotment of shares in contravention of the above-mentioned provisions is voidable at the instance of any applicant within one month after the statutory meeting.

In South Australia and Western Australia the Act provides that in the case of any allotment made in pursuance of any prospectus no allotment shall be binding on the applicant, unless

(a) The minimum number of shares upon which the directors may proceed to allotment has been subscribed for, or, if no minimum subscription is named, all the shares offered have been subscribed for.

(b) The minimum amount payable on each share stated as a condition of allotment has been paid at the time of allotment, or, if no amount named, 10 per cent. of the amount payable in cash.

(c) The allotment is made within three months from the date of the application was lodged with the company.

In New South Wales and Queensland no restriction is placed upon the allotment of shares.

Restrictions on Commencement of Business.—In New South Wales, Queensland, Western Australia, South Australia, and Tasmania directly a company is registered and receives its Certificate of Incorporation it is entitled to commence business, but such is not the case in New Zealand and Victoria with regard to a company limited by shares (not being a "private" company in New Zealand nor a "proprie-

tary" company in Victoria). In these two States a company limited by shares before it can commence business must obtain a further certificate from the Registrar, entitling it to do so, and this certificate will not be issued until the following conditions have been complied with:—

(a) Shares held subject to payment in cash have been allotted to the full amount of the minimum subscription.

(b) Every director has paid on the shares taken by him a proportion equal to the application and allotment money on the shares issued to other applicants.

(c) There has been filed with the Regiscrar a statutory declaration signed by the secretary (in N.Z., the manager), or one of the directors, that the foregoing has been complied with.

In addition to the above, provision is made under the Victorian Act that, in the case of a company which does not issue a prospectus inviting the public to subscribe for the shares, there must be filed with the Registrar a statement in lieu of a prospectus.

Any contracts entered into by a company before it is entitled to commence business are provisional only, and not binding on the company until it is so entitled, but then shall become binding.

Other Classes of Company.—In New Zealand provision is made under the Companies Act for the formation of "private" companies which may consist of any number of members being not less than two and not more than twenty-five. Such a company must in its Memorandum of Association include a statement to the effect that the company is a private company. The whole of the shares with which a private company is registered must be subscribed for in the Memorandum of Association. It need not file a copy of its Articles of Association, nor send in to the Registrar a copy of its Annual List and Summary. It must, however, notify the Registrar whenever any alteration is made in the Register of Members. As already mentioned, such a company is also exempted from the restrictions placed on public companies in connection with the commencement of business.

In Victoria provision is made under the Companies Act for "proprietary" companies. "Proprietary" company under the 1896 Act means one which fulfils all the following requirements, viz.:—

(a) Has not more than 40 members or shareholders.

(b) Has not received deposits except from its members or shareholders for fixed periods or payable at call, whether bearing or not bearing interest.

(c) Does not use its title without the addition thereto immediately before the word "limited" of the word "proprietary."

(d) Has filed with the Registrar-General a written notice of the fact of such addition to its name.

(e) Has received from the Registrar-General a certificate that in his opinion the company has duly complied with the foregoing requirements up to the date of the certificate, and

(f) Has published a copy of such certificate in the "Government Gazette."

Under the Victorian Companies Act, 1910, the term "proprietary company" also applies to any company which

(1) By its Memorandum of Association

(a) restricts the right to transfer its shares; and

(b) limits the number of its members (exclusive of persons who are in the employment of the company) to fifty, and

(c) prohibits the company from receiving deposits except from its members or shareholders for fixed periods or payable at call, whether bearing interest or not bearing interest; and

(2) Has received a certificate of incorporation in which the Registrar-General certifies that the company is a proprietary company.

Proprietary companies are exempt from a number of provisions relating to public companies, e.g., the restrictions on commencement of business already referred to, do not apply to this class of company.

Returns.—The Companies Act, which confers upon the members of companies the immense advantage of limited liability, in turn imposes certain duties on the companies. Amongst these duties is the necessity of filing returns with the Registrar setting out information which it is only reasonable that persons having dealings with the company should

be able to obtain. Directors and other officers of companies should acquaint themselves with the nature of these returns, and see that the statutory requirements necessary in this respect are complied with. These returns vary as to number in the different States, but in all the States every company limited by shares must file with the Registrar once in every year a copy of the Annual List and Summary. As to the details to be contained in this return, see the Acts of the various States.

Return of Allotments.—In Victoria and New Zealand, when a company makes any allotment of shares, it must file with the Registrar a return of allotments stating:—

(a) The number and the nominal amount of the shares allotted; the names, addresses, and occupations of the persons to whom the shares have been allotted, and the amount paid or due and payable on each share; and

(b) In the case of shares allotted as fully or partly paid up otherwise than in cash, a contract in writing constituting the title of the allottee to the allotment, together with any contract of sale, or for services or other consideration in respect of which that allotment was made, and a return stating the number and nominal amount of shares so allotted, the extent to which they are to be treated as paid, and the consideration for which they have been allotted.

The return referred to must be filed with the Registrar within one month after allotment has been made.

Published Statements.—In Victoria the Act imposes upon directors and managers the necessity of keeping proper books and of having the accounts audited at intervals of not more than fifteen months. After the Balance Sheet has been audited, a copy must be sent to the Registrar-General and to every member of the company at least seven days before the general meeting. A copy must also be posted up in the registered office of the company and in every branch office until the next balance day. Every creditor and shareholder is entitled to a copy on payment of a sum not exceeding sixpence. A private Balance Sheet, containing full details of the information upon which the Balance Sheet issued to shareholders is based, must be prepared by the directors, and must be signed by the manager and at least two directors. A duplicate of such Balance Sheet, signed in the same way,

must, within seven days after the meeting of the company, be deposited in a sealed envelope with the Registrar, endorsed with the name of the company and certified to by the auditors, and such envelope is only to be opened by order of the Court on the application of the Attorney-General or the liquidators on the winding-up of the company. In Victoria no person can act as auditor to any company unless he is licensed by the Company Auditors' Board.

Foreign Companies.—Where a company is registered in one State and carries on the whole or any portion of its business in another State it is viewed in the latter State as a foreign company and is compelled to register as such in that State also, e.g., a company registered in Victoria but carrying on business in New South Wales must register under the New South Wales Act as a foreign company. The provisions as to the registration of foreign companies vary in the different States, but, generally speaking, it is necessary for the company to have an agent appointed and to file with the Registrar a copy of its Memorandum and Articles certified to by a statutory declaration of such agent.

CHAPTER X.

COMPANY ACCOUNTS.

Coming now to the entries required in the financial books of a company, it is hardly necessary to point out that no variation of the usual procedure is required in connection with the bookkeeping relating to the trading portion of the business. The only difference will be with regard to the accounts representing the capital of the company.

The English method of recording the opening entries has the merit of being exceedingly simple, but, as compared with that commonly used by accountants in the Commonwealth, and known as the "Australian" method, it is unscientific and, to those who have experienced the advantages of the last-mentioned system, unsatisfactory in actual practice. English accountants make no actual entries in the financial books until a call is made, when an entry is passed debiting a Call account and crediting Share Capital account with the amount of the call. As calls are paid Cash account is debited and the Call account credited. It is usual to keep some record of the amount of the company's authorised capital, its unissued shares and the uncalled capital in the form of memoranda in the books, but the private ledger of a company is hardly the place to make memoranda and, if it is found that this information is necessary and of value to the company, it is undoubtedly the better course to record the information in such a way that it will form part of the double entry system of bookkeeping.

The Australian method provides in ledger accounts all the information relating to capital which it is essential the directors should be able to ascertain without difficulty, and each item in the Balance Sheet is, in this way, represented by some actual ledger account, whereas, under the English method, some of the items included in the Balance Sheet are represented merely by memos.

It is proposed, therefore, to explain in detail the opening entries in connection with the capital of a company, using the Australian method as being the better of the two. This explanation will perhaps be more easily followed if an imaginary company is dealt with and the entries traced through in their natural sequence.

The X.Y.Z. Co., Ltd., was registered with a capital of £50,000, divided into 50,000 shares of £1 each. The directors decide to offer 25,000 shares for subscription by the public, the sum of 4/ per share being payable on application, and 4/ per share on allotment. The whole of these shares are applied for by and allotted to various shareholders, and two months later a call of 2/ per share is made.

It is first of all necessary to bring into the books the full authorised capital of the company, this capital being represented by a credit balance in Authorised (or Nominal) Capital account. The contra to this credit entry is an entry in Unallotted Shares account, as, at this stage, the authorised capital is represented merely by shares which have not been subscribed for by the public, but which the company has the right to issue. Set out in Journal entry form the opening entry would therefore appear as follows:—

Unallotted Shares A/c, Dr.	£50,000	
To authorised Capital A/c		£50,000
Being Registered Capital of the Company in 50,000 shares of £1 each, as set out in the Memorandum of Association.		

The directors having decided to issue and the public having subscribed for 25,000 of these shares, another asset is substituted for a portion of that represented by Unallotted Shares account, as the subscribers for these shares have made themselves liable to pay to the company the sum of £25,000. An account called Uncalled Capital account is therefore opened to represent this asset, and the amount of £25,000 is debited to that account. As 25,000 of the company's shares have now been allotted, the result is that the unallotted shares have been reduced by a similar number, and Unallotted Shares account is therefore credited with £25,000, being the value of the shares issued to the public, in order to reduce the balance of that account to its correct amount, the Journal entry being as under:—

Uncalled Capital A/c, Dr.	£25,000	
To Unallotted Shares A/c		£25,000
Being 25,000 shares of £1 each, Nos. 1-25,000, issued as per Directors' Minute Book, folio 3.		

It will be seen that the balance of Uncalled Capital account must at any time represent the total amount owing by shareholders on the shares held by them, and it is also clear that every time a call is made on the shareholders the balance in Uncalled Capital account will decrease. As it has been decided by the directors that the sum of 4/ per share is pay-

able on application by the public and a further sum of 4/ on the shares being allotted to the public, an entry is passed debiting accounts representing the amounts so due and reducing the balance in Uncalled Capital account.

Application A/c, Dr.	£5,000	
Allotment A/c, Dr.	5,000	
To Uncalled Capital A/c		£10,000
Being the sum of 4/ per share payable on application and 4/ per share payable on allotment as per Directors' Minute Book, folio 4		

The balance of Uncalled Capital account will now represent the amount still uncalled on the shares held by the various shareholders.

When payment of the application and allotment moneys has been received in cash from the shareholders the totals will be posted to the credit of Application account and Allotment account respectively, and, assuming that the whole of the allotment money has been received, these two accounts will then be closed off. The Cash Book of a newly-formed company should have the first few pages ruled so as to provide separate columns for application and allotment money in order to enable the total amount received from shareholders in respect thereof to be ascertained without difficulty. In large companies, where there is any likelihood of the issue decided upon by the directors being oversubscribed, the procedure here mentioned will be slightly varied, but this is a matter dealt with more fully in the next chapter.

Two months later the directors decide to make a call of 2/ per share. This call will still further reduce the amount of Uncalled Capital so that this amount will have to be credited with the total amount of the call, the debit entry being made in an account opened to represent the amount owing by the shareholders in respect of the call, viz., First Call account.

First Call A/c, Dr.	£2,500	
To Uncalled Capital A/c		£2,500
Being Call of 2/ per share, on 25,000 shares as per Directors' Minute Book, page 20.		

The total amount received in respect of this call will be posted from the Cash Book to the credit of First Call account, and, assuming that all the shareholders meet their obligations, the account will be closed off. The Balance Sheet of the company prepared at this stage would appear as under, and it is advisable to note carefully the form in which the Capital accounts are set out:—

X.Y.Z. COMPANY, LIMITED.

BALANCE SHEET AS AT 30th JUNE, 1920.

LIABILITIES.			ASSETS.	
Nominal Capital in 50,000 ordinary Shares of £1 each ..	£50,000		Cash	12,500
Less Unallotted shares	25,000			
Subscribed Capital ..	25,000			
Less Uncalled Capital	12,500			
Paid-up Capital		£12,500		
		£12,500		£12,500

Where a company has issued more than one class of shares, e.g., Preference and Ordinary shares, it is essential that these should be kept separate in the books, seeing that the rights of the respective classes of shareholders will in most cases vary considerably. This may be effected either by opening up a separate set of Capital accounts altogether or, preferably, by tabulating the various Capital accounts and supplying separate columns for the different classes of shares. The method of tabulating these accounts is illustrated in the example supplied at the end of this chapter. It will be noted that, even in the Journal entries, the distinction between the classes of shares should be made.

Forfeited Shares.—Where a shareholder has failed to pay the calls on him in respect of the shares he holds the directors may, if authorised by the articles of association, forfeit such shares. It should be noted, however, that this power of forfeiture can only be exercised if specific provision enabling the directors to do so is included in the articles of association, and then only after due notice as prescribed by the articles has been given to the shareholder. This right of forfeiture can only be exercised by way of penalty on the shareholder and not for the purpose of relieving him from his liability to pay future calls on the shares. Even when shares have been forfeited the defaulting shareholder still remains liable to pay any calls made on his shares whilst he was a member.

The effect of the forfeiture is that the shares revert to the company and can be re-issued and the company also retains any amounts which have already been paid on the shares. The amounts so paid on the shares must be carried to a special Reserve account and left there, in any case, so long as the shares remain unissued. The shares may at

any time be issued at a discount not exceeding the amount already paid on them, represented by the balance standing at the credit of the special Reserve account referred to. Where a discount of this nature is allowed, it will be necessary to transfer so much of the balance in the special Reserve account as equals the amount of the discount to the credit of Uncalled Capital account.

Assuming that the shares have been re-issued either at par or at a discount less than the amount previously paid on the shares, the question arises as to the disposal of the balance of the amount standing to the credit of Forfeited Shares Reserve account. The general opinion appears to be that, assuming there is nothing to the contrary in the company's Articles, the amount may be transferred to Profit and Loss account. Where the company's Articles provide, as is often the case, that no dividend shall be paid otherwise than out of the profits of the business, it is submitted that the profit on these shares could not be used in this way, as it can hardly be said that the making of profits on shares is part of the business of the company. Even although the transfer to Profit and Loss account may be neither contrary to the Articles nor illegal, it is advisable to allow the amount to remain standing at credit of the Forfeited Shares Reserve account.

The entries in connection with the forfeiture of shares can best be explained by supplying an illustration. Let it be assumed in the first place that the directors of the X.Y.Z. Co., Ltd., have made a second call of 2/ per share, the Journal entry necessary to record this being:—

Second Call A/c, Dr.	£2,500	
To Uncalled Capital A/c		£2,500

After the time for the payment of this call has expired it is reported to the directors that the holders of 1000 of these shares have not paid the amounts due by them. On going into the matter the directors consider that one of the shareholders—the holder of 500 shares—will not be able to pay the amount required of him, and, after having given the notice required by the articles and exhausted all means of trying to obtain payment from him, they decide to forfeit the shares.

The first entry required to record this forfeiture will be a debit to Unalloted Shares account for the full nominal value of the shares, £500, as these shares have now reverted to the company, and the directors have the right to reissue them. The next step is to take out of any other of the Capital ac-

counts any amounts still outstanding on these shares. When they were issued, Uncalled Capital account was debited with £1 per share in respect thereof, but since then the sum of 12/ per share has been called up on the shares and Uncalled Capital account has been credited with that amount. There still remains in Uncalled Capital account an amount equivalent to 8/ per share on 500 shares. Second Call account will also require to be credited with 2/ per share, as it is not likely that the company will receive payment of this amount, and by this entry the amount which was originally debited to that account in respect of the shares is taken out. The two credit entries referred to represent 10/ per share, and the remaining 10/ has already been paid in cash, viz., 4/ on application, 4/ on allotment, and 2/ in respect of the first call. This 10/ per share already paid represents a profit to the company, as it has received this amount in cash and has now taken back the shares. The amount of £250 is therefore credited to a special Reserve account, viz., Forfeited Reserve account and the treatment of the balance of this account has already been dealt with. The following illustration sets out the above procedure in Journal entry form:—

Unallotted Shares A/c, Dr.	£500	
To Uncalled Capital A/c		£200
Second Call A/c		50
Forfeited Shares Reserve A/c		250
Being 500 shares, Nos. 1251—1750 forfeited as per Directors' Minute Book, folio 35.		

A Balance Sheet of the X.Y.Z. Co., Ltd., prepared from the books after the additional Journal entries given above had been posted would appear as under. It will be remembered that the holders of 500 shares are still in arrears with their second call and that the amounts owing by them will be shown by the balance of Second Call account in the ledger.

X.Y.Z. COMPANY LIMITED.

BALANCE SHEET AS AT 30th SEPTEMBER, 1920.

Nominal Capital . ..	£50,000		Sundry Assets	£14,900
Less Unallotted Shares	25,000			
Subscribed Capital ..	24,500			
Less Uncalled Capital	9,800			
Called-up Capital ..	14,700			
Less Calls in Arrears Being second call on 500 shares unpaid.	50			
		£14,650		
Forfeited Shares Reserve		250		
		£14,900		£14,900

Calls Paid in Advance.—The directors of a company may, if authorised to do so by the Articles of Association, receive from any shareholder payment in advance of the whole or any portion of the amount still uncalled on his shares. The Articles usually provide that interest is to be paid to such a shareholder on the amount so advanced, and this interest is payable whether the company is making profits or not.

Upon the winding up of a company any shareholder who has paid calls in advance of those made by the directors is entitled to receive back the amount so paid before anything is returned to shareholders in respect of Called-up Capital. Calls paid in advance should be credited to a separate account and shown as such clearly in the Balance Sheet.

Premiums on Shares.—In the case of a company which is in a flourishing condition, or which it is evident will provide an investment better than ordinary, it is generally possible for the directors to obtain a premium for the shares, or, in other words, to issue the shares at more than their face value. The amount of the premium is, in most cases, payable with the allotment money and the total amount so payable should therefore be debited to Allotment account. It is apparent that this premium must be dealt with in a different manner from the actual allotment money, which will of course be credited to Uncalled Capital account, as the premium does not form part of the nominal value of the shares. Such portion of the allotment money as represents the premium must be credited to a separate account, "Premium on Shares account," and the question arises as to the ultimate disposal of the balance of this account.

There can be no doubt that the safest course to follow is to allow the amount so received to remain at the credit of the Premium on Shares account and treat it as a special reserve, although the general opinion is that it is not illegal, subject to any provision to the contrary in the Articles of Association, to distribute the amount so received as a dividend amongst the shareholders at any time. It is thought that, seeing that the amount received by way of premium on the shares is, strictly speaking, a capital receipt, there might be some doubt as to the legality of so treating the premium, and from a director's point of view the wisest course to adopt is to allow the amount to stand as a special reserve in the books. In Victoria the Companies Act provides that no company shall issue shares at a premium until it has been in existence at least twelve months and that all premiums on shares must be carried to a Special Reserve account. Neither

premiums on shares nor the amounts paid on forfeited shares should be transferred to general Reserve account, as the balance of this account may at any time be re-transferred to Appropriation account and the amount of the reserve distributed amongst the shareholders by way of dividend.

Discount on Shares.—It should be remembered that shares cannot be issued at a discount. Every person who takes up shares in a company undertakes that he will pay the full nominal value of those shares in cash to the company unless a contract has been filed with the Registrar of Companies at or before the issue of the shares, showing that the shares are issued for a consideration other than cash. Shares cannot therefore be issued without consideration either as fully or partly paid up. Many attempts have been made to get behind the rule that shares must not be issued at less than their full nominal value. There is nothing to prevent debentures being issued at a discount. One company hit upon the brilliant idea of issuing debentures repayable on demand at less than their normal value and inserted a provision in the debenture deed that the debenture holder should have the option of accepting repayment of the face value of the debentures in shares.

This clause in the debenture deed was, however, held to be ultra vires, being looked upon as an attempt to issue shares at a discount by indirect means. If the company is authorised to do so by its Articles there is nothing to debar it from paying the usual commission to a broker for placing its shares. This commission should not, generally speaking, exceed 2½ per cent. In Victoria and New Zealand the Act authorises the payment of any rate of commission for underwriting, taking or placing shares, provided the rate paid is authorised by the Articles and disclosed in the prospectus. There is, of course, nothing to prevent a company in any State from paying whatever rate of commission it pleases out of profits.

It should be noted, however, that in Queensland a company which has been in existence for more than twelve months may issue shares for less than their face value provided there is an agreement in writing to support the contract.

Watering Capital.—This is the procedure which has not been uncommon during the present run of good seasons. Some companies, more particularly those which have monopolies, have been so prosperous that the directors have had great difficulty in deciding how to dispose of the profits, as

it is not considered desirable to make it appear that a dividend of more than, say, 10 per cent. or 12 per cent. on the issued shares has been earned. Assets have been written down, in some cases, to about one-fourth their actual value, so creating secret reserves, and other reserves have been accumulated to an extent greater than the most conservative investor would deem necessary. When a company reaches this stage the directors may decide to adopt the course commonly known as "watering the capital," i.e., they provide for the issue of further shares pro rata to the present shareholders and at the same time declare, or call a meeting of the company to declare, a dividend payable out of the reserve.

This dividend is applied in payment of the shares so issued, so that the watering has a twofold effect. Firstly, it reduces the amount of the reserve to more reasonable proportions, and, secondly, it increases the paid-up capital of the company, so that in future, even if the amount of profits remains the same, the percentage of profits on the paid up capital will be considerably lower. The shareholders will thereafter receive a larger amount in dividends, although apparently the rate of profits earned by the company has decreased. Instances might be quoted where the original shareholders of companies, although only receiving a dividend of, say, 10 per cent. on their present holdings, are actually receiving about 50 per cent on the cash paid by them for their shares.

The bookkeeping in connection with the procedure illustrated above is very simple. An entry will be passed debiting Uncalled Capital account and crediting Unallotted Shares account with the face value of the shares to be issued. A transfer will then be made from Reserve account to the credit of Bonus Dividend account and, when the shares are issued to the shareholders, another entry will be passed debiting Bonus Dividend account and crediting Uncalled Capital account.

Dividends.—The Articles of a company usually provide that the dividends are to be declared by the company in general meeting. The amount of the dividends is generally recommended by the directors, but the actual declaration of the dividends will be made by resolution of the shareholders themselves. In some cases the Articles provide that the power of declaring dividends rests with the directors; but, even although this is not the case, the directors generally have the right under the Articles to make such reserves as they think necessary out of the profits before the amount available for dividend is shown.

Table "A" of the Companies Act in each State, except Victoria, provides that dividends are to be paid to shareholders in proportion to the number of shares held by them respectively, i.e., irrespective of the amounts paid on the shares, but it is more usual for the articles of a company to make provision that the dividends are to be paid to the shareholders by way of percentage on the amount paid up on their shares. Where a dividend has been declared the amount should be transferred from Appropriation account (not Profit and Loss account, seeing that this is an appropriation of profits) to Dividend account. In many cases a separate Bank account is kept for dividend purposes and, where this is so, a corresponding amount will be withdrawn from the ordinary Bank account and paid into the "Dividend account." As the warrants issued to the shareholders are paid the amounts will be posted to the debit of Dividend account in the Private ledger, the balance of that account agreeing always with the balance of the special Dividend account at the bank. The procedure in connection with the payment of dividends is dealt with in detail in the next chapter.

Increase of Capital.—Where the whole of the shares making up a company's registered capital has been taken up by shareholders, provision is contained in the Companies Act to enable a company desirous of issuing further shares to increase its capital. Any such increase must be notified to the Registrar of Joint Stock Companies and the alteration of the authorised capital included in every copy of the Memorandum issued thereafter. Where it is desired to "water" the capital by issuing bonus shares, in the manner indicated under a previous heading, it may be found that the company has not sufficient shares available, and this will necessitate an increase in the capital of the company. When capital has been increased it will be necessary to pass an entry debiting Unallotted Shares account and crediting Authorised Capital account with the nominal value of the shares.

Debentures.—Where a company desires to borrow money the usual procedure is to provide for an issue of debentures, as this forms a convenient means of raising and securing the loan. In order to enable the directors of a company to borrow money in this or any other way, it is necessary that they should have authority to do so by the Articles of Association, although it has been held that, in the case of a trading company, the directors have the implied authority to borrow money for the purposes of the company, even where no express provision to that effect is contained in the

Articles. A debenture is an acknowledgment by deed of the receipt of money and generally, but not necessarily, gives the holder some security over any one or more of the assets of the company. A debenture usually contains provisions as to the date of repayment, the rate of interest payable, and sets out generally the conditions under which it is issued.

Where a debenture gives no charge over any of the assets of a company it is known as a "naked debenture," but in most cases debentures issued give a mortgage over the whole or part of the assets of a company. In some cases debentures are issued under a trust deed wherein a trustee for the debenture holders is appointed. This trustee looks after the interests of the debenture holders and, should the company commit a breach of any of the provisions contained in the deed, action will be taken against the company by the trustee on behalf of the debenture holders.

The holders of the debentures are generally registered in the company's books and, in the event of a debenture being sold, the change of ownership must be registered in the books of the company before the company will recognise the new holder. Debentures may, however, be issued payable "to bearer," and these are transferable by delivery. It has been held in an English case that debentures payable "to bearer" are negotiable instruments, so that any person who has received such a document in good faith and for value and without notice of any defect in the title of the person from whom he received it, acquires a good title thereto and may, on the maturity of the debenture, demand payment of the amount from the company.

Debentures may be issued at par, at a discount, or at a premium, there being no restriction as in the case of shares on issuing debentures at a discount, as they do not form part of the capital of the company. The amount received from debenture holders, while it is sometimes called working capital, is, of course, a loan by the debenture holders to the company and is not, strictly speaking, capital. Debentures payable to bearer will not require any detailed record in the books of the company, but where registered debentures are issued it is necessary to keep a Debenture Register in which full descriptions of the various holders and the number of debentures held by them are recorded. This portion of the procedure is explained fully in the next chapter, but it is proposed to deal here with the entries required in the company's Private ledger.

Upon receipt of the applications and deposits from the persons desiring to acquire the debentures of a company an

entry will be passed debiting Sundry Debenture-holders' account and crediting Debentures account, or Mortgage Debentures account, as the case may be, the amount of the deposit being credited to Sundry Debenture-holders' account. Upon repayment of the debentures cash will be credited, and Debentures account debited, closing the latter account off.

Debentures Issued at a Discount.—It is clear that a company must repay to the debenture holders the full nominal value of the debentures irrespective of the amount it agrees to accept in the first place as payment therefor, and it is therefore necessary that the Debentures account should, from the time of issue of the debentures, show the full liability of the company in respect thereof. The amount of the discount allowed on the debentures should be debited to Discount on Debentures account, which account must be transferred to Profit and Loss account. It is neither usual nor advisable to charge this amount against the profits of the year in which the debentures are issued, but a proportionate amount of this discount should be written off to the debit of Profit and Loss account each year during the currency of the debentures. The following will show the entries to be passed by a company which has issued 100 debentures of £100 each at 98:—

Sundry Debenture-holders A/c, Dr.	£9,800	
Discount on Debentures A/c	200	
To Debentures A/c		£10,000
Being issue of 100 Debentures of £100 each to Sundry Debenture-holders at a discount of 2 per cent.		

Assuming that the above debentures have a currency of ten years, the sum of £20 will be written off the balance of Discount on Debentures account against the profits of each year.

Debentures Issued at a Premium.—The premium received on debentures may be credited to Profit and Loss account, and where it is desired to adopt this course the amount of the premiums should be spread by crediting a proportionate amount of the premium to each year's Profit and Loss account during the currency of the debentures. It is more desirable, however, to transfer the amount of the premium to Reserve account, or to utilise it for the purpose of writing down items such as Goodwill or Preliminary Expenses in the books. Assuming that, in the illustration already supplied, the debentures, instead of having been issued at 98, are issued at 102, the Journal entry would be as follows:

Sundry Debenture-holders A/c, Dr.	£10,200	
To Debentures A/c		£10,000
" Premium on Debentures A/c		200

The annual interest payable on the debentures must, of course, be charged against each year's profits, and, where balance-day occurs in between two payments, accrued interest must be brought into account. The method of providing for the repayment of debentures out of profits by means of a sinking fund has already been dealt with under the heading of "Sinking Funds" in Chapter VIII.

"CONVERSION" OF PRIVATE TRADING CONCERN INTO A LIMITED COMPANY.

The term "conversion," although commonly used in this connection, does not correctly describe the procedure. What actually occurs is that a limited company is registered and an arrangement is entered into whereby the proprietor of the business agrees to sell to the company and the company agrees to purchase from the proprietor, so that strictly speaking, the transaction is not a conversion, but an out-and-out sale on the part of the proprietor and a purchase on the part of the company.

In Example 6, the entries in the books of a partnership which has decided to sell to a limited company are shown, and it is now proposed to deal with the procedure from the point of view of the company. The terms under which the transfer of a business to a company takes place will be included in an agreement which may set out in full the assets, and liabilities to be taken over by the company, or it may merely refer to a Balance Sheet attached to the agreement upon which the transfer is based. The agreement will also state the consideration to be paid to the vendors and the nature of the consideration, whether cash, shares or debentures. This contract when signed by the vendors and the directors or trustees on behalf of the company, will constitute the title of the vendors to the shares agreed to be issued to them, and it will not be necessary for them to make formal application for those shares, nor will any resolution by the directors to allot the shares to the vendors be required.

Where a detailed list of the assets and the price to be paid for each is set out in the agreement the entries in the books of the company will be based upon these figures, but very often the agreement provides that the business will be taken over from the vendor on the basis of a Balance Sheet attached to the agreement and the consideration will be set out in a lump sum in the agreement.

Where the former course is adopted the assets will be brought into the books of the company at the values named in the agreement, but if the latter course is followed the book-keeper will have no option but to bring the assets into the company's books at the amounts at which they appeared in the Balance Sheet referred to. An entry will be passed debiting accounts representing the various assets and crediting the Vendor's account. If the company assumes the liabilities of the business the Vendor's account will be debited with the total and accounts representing the sundry liabilities credited. The balance remaining in the Vendor's account will then represent the amount to be paid in shares, cash or debentures. In some cases it will appear that the company is paying to the vendor an amount exceeding the difference between the liabilities and assets taken over and, although the item Goodwill is not specially mentioned, it is obvious that any additional payment must be for goodwill, as a company cannot issue shares without consideration. (See Example 9.)

It sometimes happens that a company apparently pays less than the amount of the assets as valued in the Balance Sheet attached to the agreement. Where such is the case it will be necessary to look closely into the assets disclosed therein and see whether this is caused by the fact that the assets are not actually worth the values stated in the Balance Sheet, or whether the company has made a particularly good bargain on the purchase. In either case the result will be that, after the vendor has been paid the agreed amount in cash, shares, etc., there will be a credit balance in his account and, if the assets are not worth the amount at which they have been included in the books, this credit balance should either be applied towards reducing them, or, if this be not practicable, transferred to a Reserve for Depreciation account. On the other hand, if the credit balance in the Vendor's account is of the nature of a profit on the purchase, the amount should be transferred to Reserve account. (See Example 10.)

Where the shares allotted to the vendors are issued as fully paid up the credit entry will be made direct to Unallotted Shares account, as it is not necessary to put such shares through the Uncalled Capital account, but where the shares are issued as only partly paid up the latter course will be adopted, i.e., the full value of the shares issued will be debited to Uncalled Capital account, and credited to Unallotted Shares account. The vendor will then be debited with an amount equalling the paid up proportion of these shares and Uncalled Capital account will be credited. The balance still remaining uncalled on these shares will then show in the last-mentioned account.

As shares issued to a vendor under circumstances such as are indicated above are issued for a consideration other than cash, it is necessary that the agreement be filed with the Registrar of Companies, at or before the issue of the shares in Victoria and New Zealand within one month after allotment) otherwise the vendor may find himself liable upon the winding up of the company to pay up the amount of these shares in cash.

It frequently happens, more especially in companies of a private nature, for whose shares the public is not invited to subscribé, that the vendor of the business and the principal shareholder in the company are one and the same person. In such a case, it is advisable to have the company registered before the date on which the transfer takes place, as the agreement can then be executed by the vendor and by the company prior to the date of the actual transfer. Where this is done, it will not involve the necessity for making an adjustment in connection with profits earned prior to incorporation, a matter dealt with under the next heading.

When a company is being floated, either for the purpose of taking over a business already in existence or for starting a new concern altogether, and it is desired to invite subscriptions from the public, it is often not advisable to register the company until it is fairly certain that sufficient shares will be taken up to make the flotation a success. This will save registration fees in the event of the flotation proving a failure, but it has a corresponding disadvantage in that the proposed company cannot enter into any contracts until it is registered, seeing that a body which is not legally in existence cannot bind itself by an agreement.

It is, however, necessary that the promoters should have some agreement binding on the vendors, so that, after applications for sufficient shares have been received and the company is ready to commence business, they will have no opportunity of repudiating their part of the arrangement. It is necessary, in such a case, to appoint a trustee for the company who will enter into the contract with the vendors on behalf of the company and provision will be made in the Memorandum for the company, upon registration, to execute an agreement adopting that entered into by the trustee on its behalf.

Profits Prior to Incorporation.—It often happens that the agreement between the vendor and the company provides that the company has to take over the business as from a date prior to that on which the company is registered. The company may in the agreement undertake to pay the vendor a fixed sum for

the assets as on the date from which the company takes over and the question arises as to the proper disposal of any profits earned in between the date of taking over and the date of registration of the company.

It is clear that the company has purchased, in addition to the ascertained assets, the benefit of the unknown profits and the assets representing such profits form part of those purchased with the capital of the company. Should such profits be divided amongst the shareholders it would amount to a distribution of capital. Sometimes the agreement may provide that the company is to hand over an estimated amount for the profits made during the period mentioned and, where such is the case, the amount so paid will be transferred to the debit of the company's Profit and Loss account at the end of the year, the result being that the net profit then disclosed by the Profit and Loss account will be available for dividend purposes. Where, on the other hand, no such arrangement has been made, the profits for the intervening period must be estimated as closely as possible, usually by calculating the gross profit in proportion to the turnover for such period and deducting a proportion of the expenses for the whole year according to the length of the period. The amount so estimated should be charged to the Profit and Loss account at the end of the year and either carried to a Special Reserve account, or written off the account representing the goodwill, if any, paid to the vendor.

EXAMPLE No. 9.—A limited company was formed to take over the business of a private firm whose balance-sheet the date of transfer appeared as under:——

LIABILITIES.		**ASSETS.**	
Trade Creditors	£52,500	Cash Balance	£500
Capital	640,000	Bank Balance	26,500
		Book Debts	90,000
		Works in Progress	132,000
		Materials and Stores	23,500
		Land, Buildings, and Plant	420,000
	£692,500		£692,500

The purchase price agreed upon was £800,000, payable as follows:—£200,000 in fully paid preference shares, £100,000 in fully paid ordinary shares, £200,000 in debentures, and the balance in cash. The capital of the company was 300,000 preference shares of £1 each, 200,000 ordinary shares of £1 each, and it was decided to issue in all 4 per cent. debentures amounting to £400,000. The capital, other than that issued in part payment of the purchase money, was

payable 4/ per share on application, 4/ per share on allotment, and 4/ per share two months after allotment. The debentures, other than those issued to the vendors, were payable 10 per cent. on application, and the balance on issue of the debentures a few days later. Make the necessary entries in the company's books.

JOURNAL ENTRIES.

Unallotted Preference Shares A/c	Dr.	£300,000	
„ Ordinary Shares A/c	Dr.	200,000	
To Nominal Capital A/c	Dr.		£500,000
Being the Capital of the Company as per Memorandum of Association.			

Sundry Assets—			
Land, Buildings, and Plant	Dr.	£420,000	
Materials and Stores	Dr.	23,500	
Works in Progress	Dr.	132,000	
Book Debts	Dr.	90,000	
Bank Balance	Dr.	26,500	
Cash „	Dr.	500	
To Vendors' A/c			£692,500
Being Assets taken over as per Contract dated			

Vendors' A/c	Dr.	£52,500	
To Trade Creditors			£52,500
Being Liabilities taken over, as per Contract dated			

Goodwill A/c	Dr.	£160,000	
To Vendors' A/c			£160,000
Being Value of the Goodwill of business taken over from Vendor.			

Vendors' A/c	Dr.	£500,000	
To Unallotted Preference Shares A/c			£200,000
Unallotted Ordinary Shares A/c..			100,000
Debentures A/c			200,000
Being Amount Payable to Vendor in Shares and Debentures as per Contract dated..			

Uncalled Preference Capital A/c	Dr.	£100,000	
„ Ordinary Capital A/c	Dr.	100,000	
To Unallotted Shares A/c			£200,000
Being shares issued as per Directors' Minute Book folio			

Application A/c (Preference)	Dr.	£20,000	
„ „ (Ordinary)	Dr.	20,000	
To Uncalled Capital A/c			£40,000
Being 4/ per share payable on application as per Directors' Minute Book folio			

Allotment A/c (Preference) .. .. Dr.	£20,000	
,, ,, (Ordinary) .. .. Dr.	20,000	
To Uncalled Capital A/c		£40,000
Being 4/ per share payable on allotment, as per Directors' Minute Book folio		

Sundry Debenture Holders .. .. Dr.	£200,000	
To Debenture A/c		£200,000
Being amount of Debentures issued, as per Directors' Minute Book folio, and applied for by Sundry Debenture Holders.		

Cash A/c .. .. Dr.	£100,000	
To Application A/c		£40,000
,, Allotment A/c		40,000
,, Sundry Debentures Holders' A/c		20,000
Being cash received as above.		

Cash A/c .. .. Dr.	£180,000	
To Sundry Debenture Holders' A/c		£180,000
Being Cash received on issue of debentures to Debenture Holders.		

First Call A/c (Preference) .. .. Dr.	£20,000	
,, ,, ,, (Ordinary) .. .. Dr.	20,000	
To Uncalled Capital A/c		£40,000
Being 4/ per share, payable as per Directors' Minute Book folio		

Cash A/c .. .. Dr.	£40,000	
To First Call A/c		£40,000
Being cash received as above.		

Vendors' A/c .. .. Dr.	£300,000	
To Cash A/c		£300,000
Being amount of cash paid to Vendors.		

NOMINAL CAPITAL ACCOUNT.

	Preference. £	Ordinary. £	Total. £		Preference. £	Ordinary. £	Total. £
To Balance	300,000	200,000	500,000	By Unallotted Shares	300,000	200,000	500,000
				„ Balance	300,000	200,000	500,000

UNALLOTTED SHARES ACCOUNT.

	Preference. £	Ordinary. £	Total. £		Preference. £	Ordinary. £	Total. £
To Nominal Capital A/c ..	300,000	200,000	500,000	By Vendors A/c	200,000	100,000	300,000
				„ Uncalled Capital A/c ..	100,000	100,000	200,000
	£300,000	£200,000	£500,000		£300,000	£200,000	£500,000

UNCALLED CAPITAL ACCOUNT.

	Preference. £	Ordinary. £	Total. £		Preference. £	Ordinary. £	Total. £
To Unallotted Shares A/c ..	100,000	100,000	200,000	By Application A/c	20,000	20,000	40,000
				„ Allotment A/c	20,000	20,000	40,000
				„ First Call A/c	20,000	20,000	40,000
				„ Balance	40,000	40,000	80,000
	£100,000	£100,000	£200,000		£100,000	£100,000	£200,000
„ Balance	40,000	40,000	80,000				

APPLICATION ACCOUNT.

To Uncalled Capital A/c ..	20,000	20,000	40,000	By Cash A/c	20,000	20,000	40,000

ALLOTMENT ACCOUNT.

To Uncalled Capital A/c ..	20,000	20,000	40,000	By Cash A/c	20,000	20,000	40,000

FIRST CALL ACCOUNT.

To Uncalled Capital A/c ..	20,000	20,000	40,000	By Cash A/c	20,000	20,000	40,000

DEBENTURE ACCOUNT.

To Balance	£400,000	By Debenture Holders A/c	£200,000
		,, Vendors A/c	200,000
		,, Balance	£400,000

DEBENTURE HOLDERS ACCOUNT.

To Debenture A/c	£200,000	By Cash A/c	£20,000
		,, Cash A/c	180,000
	£200,000		£200,000

LAND, BUILDINGS AND PLANT ACCOUNT.

To Vendors A/c	£420,000	By Balance	£420,000
,, Balance	£420,000		

MATERIAL AND STORES ACCOUNT.

To Vendors A/c	£23,500	By Balance	£23,500
,, Balance	£23,500		

WORKS IN PROGRESS ACCOUNT.

To Vendors A/c	£132,000	By Balance	£132,000
,, Balance	£132,000		

SUNDRY DEBTORS ACCOUNT.

To Vendors A/c	£90,000	By Balance	£90,000
,, Balance	£90,000		

GOODWILL ACCOUNT.

To Vendors A/c	£160,000	By Balance	£160,000
,, Balance	£160,000		

TRADE CREDITORS' ACCOUNT.

To Balance	£52,000	By Vendors A/c	£52,500
		Balance	£52,500

VENDORS ACCOUNT.

To Trade Creditors A/c ..	£52,500	By Sundry Assets A/c ..	£692,500
,, Unallotted Shares (Preference) A/c	200,000	,, Goodwill A/c	£160,000
,, Unallotted Shares (Ordinary) A/c .. .	100,000		
,, Debenture A/c	200,000		
,, Cash A/c	300,000		
	£852,250		£852,500

BANK ACCOUNT.

To Balance	£27,000	By Vendors A/c	£300,000
„ Application A/c	40,000	„ Balance	47,000
„ Allotment A/c	40,000		
„ Sundry Debenture Holders A/c	20,000		
„ Sundry Debenture Holders A/c	180,000		
„ First Call A/c	40,000		
	£347,000		£347,000

EXAMPLE No. 10.—J. Buckley agrees to sell his business to a limited company. His balance-sheet on the date of transfer shows that he has sundry assets amounting to £10,000, and liabilities £4000, and the company agrees to take over the assets and liabilities, and pay him £2000 in cash, and £3500 in fully paid shares of £1 each. Show the entries in so far as they relate to the vendor's account.

Sundry Assets	Dr.	£10,000	
To J. Buckley			10,000
Being Assets, etc.			

J. Buckley	Dr.	£4,000	
To Sundry Liabilities			4 000
Being Liabilities, etc.			

J. Buckley	Dr.	£5,500	
To Cash			£2,000
„ Unallotted Shares A/c			3,500
Being Cash and Shares paid, etc.			

J. Buckley	Dr.	£500	
To Reserve A/c			£500
Being Profit on Purchase of Business.			

Or, if the apparent profit is due to the fact that the assets are estimated not to be worth the amounts at which they appear in Buckley's balance-sheet, the final entry would be as under:—

J. Buckley	Dr.	£500	
To Reserve for Depreciation A/c			£500

CHAPTER XI.

COMPANY ACCOUNTS.—(Continued).

STATISTICAL RECORDS AND THE BOOKKEEPING RELATING THERETO.

The keeping of the statistical records of a company forms a very important part of the work necessary to the proper conduct of the company's affairs. Some of the books described in this chapter must be kept in order to comply with the requirements of the Companies Act and the omission to keep these books may render the company and its officers liable to pay heavy fines. In practice it is found necessary to keep statistical records other than those prescribed by statute, and a description of these books will also be found herein. This class of work is usually performed by or under the supervision of the secretary of the company, as he is in most cases made responsible for their correctness. Except in very large companies, the duties of accountant and secretary are often combined, and it is necessary, therefore, that anyone desirous of qualifying for a position of accountant to a company should have a thorough knowledge of such work.

It should be remembered that, generally speaking, the statistical books do not form part of the double entry system under which all financial books are included, and, this being the case, additional care must be exercised to see that these books are kept correctly, as the same degree of check cannot be obtained as in the case of the ordinary financial books.

The books referred to will in most cases consist of the following:—Application and Allotment Books, Share Register, Register of Transfers, Call Book, Dividend Book, Register of Mortgages and Debenture Register, and it is proposed to deal with these in the order named.

Application and Allotment Book.—Before or upon the registration of the company the promoters or directors will, unless the company is to be of a private nature, invite applications for shares from the public by the issue of a prospectus and other advertisements. The applications for shares, which

APPLICATION AND ALLOTMENT BOOK.

ISSUE OF 10,000 Ordinary SHARES OF £1— EACH

5/– per Share on Application
5/– per Share on Allotment

No.	Date Recd.	Name of Applicant		Occupation	Address	No. of Shares applied for	Deposit, 5/— per share	C B Fol	Proposed Allot.	No. of Shares Allotted	Distinguishing Numbers From	Distinguishing Numbers To	Sh Led Fol	Application Money	Allot Letter No	Letter of Regret No	Amount due on Allotment	Sh Led Fol	Surplus Deposit applied to Allotment	Sh Led Fol	Deposit returned	C B Fol	Share Certif No
				Brought forward		8650	2162 10		8,300	8,300				2075			2075		37 10		50		
84	Sep. 16	Johnson	Wm.	Squatter	Hay	500	125	3	400	400	8301	8700	49	100	78		100	49	25	49			78
85	17	Tanner	John C	Gentleman	Neutral Bay	200	50	3	200	200	8701	8900	74	50	9		50	74					79
86		Langley	Joseph	Clerk	Stanmore	20	5	3	20	20	8901	8920	53	5	80		5	53					80
87		Banks	A J	Solicitor	92 Pitt St City	100	25	4	50	50	8921	8970	7	12 10	1		12 10	7	12 10	7			81
88		Connor	James	Baker	Redfern	50	12 10	4	50	50	8971	9020	22	12 10	2		12 10	22					82
89		Conley	Jane	Widow	Botany	50	12 10	4	50	50	9021	9070	20	12 10	3		12 10	20					83
90	19	Gardiner	Chas	Clerk	Bowman	30	7 10	4	30	30	9071	9100	40	7 10	4		7 10	40					84
91		Marks	John	Brewer	Darlinghurst	500	125	4	300	300	9101	9400	57	75	5		75	57	50	57			85
92	21	Brunton	Robert J	Accountant	Moore St City	250	62 10	4	250	250	9401	9650	10	62 10	6		62 10	10					86
93		"	William	"	"	250	62 10	4	250	250	9651	9900	11	62 10	7		62 10	11					87
94		Clarke	Mary	Married Woman	West Maitland	20	5	4	Nil	Nil			/			7		/			5	4	—
95	25	Brown	Algernon	Merchant	Sussex St City	100	25	4	100	100	9901	10000	9	25	8		25	9					88
						10,720	2680		10,000	10,000				2500			2500		125		55		

must in each case be accompanied by a deposit equalling the amount payable on application, are numbered consecutively as received and entered in that order in the Application and Allotment Book, a specimen page of which is supplied herewith. In some cases it is provided that the deposit on application is to be lodged with the company's bankers and not sent to the company and, where this is so, the application forms forwarded to the company must be accompanied by the banker's receipt for the amount of the deposit.

The Cash Book should be provided with a special column headed "Application Money," in order to enable the total amounts so received to be readily ascertained and the deposits received will be entered in the Cash Book in that column and lodged with the bank, if the amounts have not been handed to the bankers by the applicants themselves. The total of the Application column in the Cash Book should, if the issue has been oversubscribed, be posted to an account in the Private Ledger called "Deposit on Application Account," but in other cases may be posted direct to the credit of Application account. It is thought that a perusal of the following explanation, together with a study of the accompanying illustration, will make the keeping of this book perfectly clear.

The amounts of the deposits accompanying the application forms will be entered alongside the names of the applicants in the column provided therefor. When sufficient applications are received the directors will then meet in order to deal with such applications and to allot shares to the various applicants. Where the issue is oversubscribed (i.e., where applications are received for more shares than the directors desire to issue), it is desirable to draw up a proposed allotment beforehand in order to save time at the directors' meeting. For this purpose the column headed "Proposed Allotment" will be found useful. As the treatment of an oversubscription is a little more complicated than where the exact number of shares which it is desired to issue are applied for, it is proposed to deal with the procedure on the assumption that there has been an over-subscription. The decision of the directors as to the number of shares to be allotted to each applicant should be entered in the Minute Book and also in the "Shares Allotted" column, the distinctive numbers of the shares allotted to each shareholder being inserted alongside in the columns set apart for that purpose.

When the number of shares to be allotted to the respective shareholders is known, the actual application money (as distinct from the deposit on application) due from each shareholder can then be ascertained. In those cases where ap-

plicants are allotted the exact number of shares applied for the application money will be the same amount as the deposit paid. Where they have been allotted a lesser number the application money will, of course, be the amount payable in respect of the actual number of shares allotted to them.

At this stage a Share account will be opened for each shareholder in the Share Register and the necessary particulars inserted therein as illustrated in the specimen of that Register supplied in this chapter. The amount payable by each shareholder on application will be entered in the Application and Allotments Book in the column headed "Application Money," and the amount will be posted to the debit of his "Call Account" in the Share Register as explained later. A Journal entry will then be passed transferring the total of the "Application Money" column from the Deposit on Application account to the credit of Application account in the Private ledger.

Each shareholder will now be credited in his Call account in the Share Register with the amount of the application money on his shares. This credit entry should be posted from the Application money column in the Application and Allotment Book in preference to being posted from the Cash Book, seeing that the amount entered in the Cash Book is the deposit on application which, as already explained, may not be the same amount as the actual Application money.

To those applicants to whom shares have been allotted, notices must be sent. It is important that this notice should be given to the allottees seeing that these letters form the acceptance of the offer made by the applicants to take shares in the company and, until their applications have been accepted and they have been notified of this acceptance, their applications can be withdrawn. These letters, exact copies of which should be kept, are numbered consecutively, and the numbers inserted in the Allotment Letter No. column. The full amount payable on allotment by each shareholder is then inserted in the column headed "Allotment money," and the amount posted to the debit of the respective shareholders in their Call accounts in the Share Register. Letters of Regret will be sent to those applicants whose applications have been refused, and the numbers of such letters should be entered in the Letter of Regret No. column.

Where shareholders are allotted less than the number of shares for which they applied the surplus amount paid by them on application will usually be applied towards payment

of the allotment money and the amount so applied in each case will be entered in the special column set apart for that purpose. The amounts in this column will then be posted to the credit of the Call accounts of the shareholders affected and a Journal entry will be passed for the total of this column, debiting Deposit on Application account and crediting Allotment account.

Where applications have been refused the applicants will have the amount of the deposit paid by them refunded. Any such payments will be posted from the credit side of the Cash Book to the debit of Deposits on Application account and, assuming that the above mentioned Journal entry has already been passed, this account will then be closed off.

Where more than one class of shares is issued, separate Application and Allotment Books, or separate portions of the same book, should be used for the purpose of recording the applications received and the procedure, mutatis mutandis, will be the same as that described above.

As each issue of shares is completed the Application and Allotment Book should be totalled. The total of the three columns headed "Application Money," "Surplus Deposit, &c.," and "Deposit Returned" must equal the total of the "Deposit on Application column." In this way some check is obtained on the accuracy of the entries in the book.

Where shares are to be issued to vendors it will not be necessary, nor is it usual, for the vendors to make formal application for the shares, but it is advisable to make an entry for the shares issued in the Application and Allotment Book. Similarly the subscribers to the memorandum do not require to make application for the shares set opposite their signatures therein, but, here again, it is advisable to enter the shares taken in this way in the Application and Allotment Book in order to keep a complete record therein of the whole of the shares issued.

Share Register.—As mentioned in Chapter IX., the Companies Act prescribes that every company must keep a Register of Members, and the information which must be contained in this book has already been supplied.

It is essential that every company should keep accounts showing the position of the members with regard to the number of shares held by them respectively and the amounts paid on those shares. For this purpose a Share Register is usually

kept, and, as most of the information to be contained in the Register of Members would be duplicated in the Share Register, it is the practice to combine these two books and to include in the Share Register all the particulars required by the Companies Act to be set out in the Register of Members. This renders the keeping of a separate Register of Members unnecessary.

A specimen page of a Share Register is supplied herewith and the method of keeping this book will, it is thought, be understood without difficulty. The Share account will be written up either from the Application and Allotment Book or from the Register of Transfers. The first two items in the debit column of the Call account will be entered up from the Application and Allotments Book, as already explained, and subsequent entries will be made from the Call Book. Items in the credit column will be posted from the Application and Allotment Book, or from the Cash Book as the case may be.

Where a company has issued more than one class of shares a separate register should be kept for each class. Where one person is the holder of more than one class of shares reference should be made in his account in each register to the fact that he is entered also in the other register or registers. If the shares held by a shareholder have been forfeited for non-payment of calls, a memo. to this effect should be made in a conspicuous manner in red ink on the page set apart for that shareholder in the register. This memo. should be made both under the Share account and the Call account and particulars given as to the reason for the forfeiture, together with a reference to the folio in the Directors' Minute Book containing the resolution.

A number of pages at the end of each register should be supplied with a different ruling in order to record the Annual List and Summary required by the Companies Act to be kept in the same book as the Register of Members. This annual list and summary is very often confused with the information which has to be supplied to the Registrar of Companies, but it should be remembered that this annual list, etc., is the record kept in the Share Register and that it is only a copy which has to be supplied to the Registrar.

Register of Transfers.—Provisions as to the transfer of shares and the right of shareholders to dispose of their shares either by sale or otherwise are contained in the Articles of Association of all companies. The form of transfer to be

REGISTER OF MEMBERS AND SHARE REGISTER.

Name James Connor
Occupation Baker
Address Redfern, Sydney

Ordinary Shares of £1– each
Certificate No 82

Dr. Call Account Cr.

Date 191.		Particulars	Board Min Folio	No of Trans	Distinctive Nos From	Distinctive Nos To	No of Shares dealt with Dr.	No of Shares dealt with Cr.	Balance of Shares held	No of Call	Date 191.		Amount		Date 191		CB Fol	Amount	
Sept	30	Applic No. 88	10		8971	9020		50	50	Applic	Sept	26	12	10	Sept	17	4	12	10
										Allot	Oct	10	12	10	Oct	14	7	12	10
191 Mch	11	Smith William	54	10	8971	8980	10		40	1st	Dec	2[illegible]	6	5	Dec	29	24	6	5

executed usually follows very closely that provided in Table "A" of the Companies Act. Every transfer of shares must be passed by the directors of the company and in most public companies no difficulty will be found in effecting a transfer provided the transferee is a reputable person. In companies of a private nature it is common to have more restrictive provisions contained in the articles and very often shareholders in such companies are prohibited from transferring their shares unless they first offer to sell them to the present shareholders in the company. The extent of the restrictions will, of course, depend in every case upon the provisions contained in the articles.

The transfer form must be signed by both the transferror and the transferee and should be left at the office of the company in order to enable it to be brought before the next meeting of directors. It should be accompanied by the share certificate of the transferror as, should the transfer be passed by the directors, this certificate must be cancelled and, if only part of the shares contained in the certificate are transferred, a new certificate will be issued to the transferror.

When a transfer has been authorised by the directors it should be entered in the Register of Transfers, a specimen ruling of which is given herewith, and this will form the basis of the entry in the transferror's account, reducing the balance of the shares shown in his Shares account, and of that opening up an account for the transferee. It might be noted here that the Companies Act provides that a transfer may be registered at the request of either the transferror or the transferee, but it is, of course, essential that the transfer should be signed by both parties before it is lodged at the office of the company.

Calls Book.—Where a resolution has been passed by the directors making a call it will be necessary to prepare a list of the shareholders whose shares are not fully paid up in the Calls Book. This book should show the Share ledger folio, names and addresses of the shareholders, the numbers of shares held by them respectively, the amount of the call, the number of notice sent, and a column for the date on which the calls are paid.

Notices as prescribed by the Articles must be sent to the various shareholders. These notices will state the amount of the call per share, the date when the call is payable, and the place where payable. From this book each shareholder will be debited in his Call account with the amount of the call, entries being made in the Private ledger, debiting First,

REGISTER OF TRANSFERS.

Date of Transfer		No. of T'fer	Passed by Board		Sh Reg Fol	TRANSFERRORS Name	Occupation	Address	TRANSFEREES Name	Occupation	Address	Sh Reg Fol	No of Shares	Distinctive Nos of Shares	Consideration	
July	14	146	July	31	24	Harris, John	Clerk	Rae St, Carlton	Spring, George	Draper	Ballarat	148	52	2862-2913	27	10

REGISTER OF MORTGAGES.

Date of Instrument creating Charge		Nature of Instrument and Particulars	Amount of Charge Created	Short Particulars of Property Charged	Particulars of Persons entitled to Charge Names	Occupations	Addresses
June	30	One hundred Debentures of £50 each with a covering Deed being a Mortgage between the Company and a Trustee for the Debenture Holders	£5000 -	The security comprises a floating Charge over the Undertaking and all the property of the Company both present & future.	Johnson Wm as Trustee for Debenture Holders	Solicitor	Sydney

Second or Third Call account, etc., as the case may be, with the full amount of the call and crediting Uncalled Capital account.

A special column for the call should be provided in the Cash Book and as the amounts are received from the shareholders they should be entered in this column and posted to the credit of the respective shareholders' accounts in the Share Register. The total of the Call column will be posted to the credit of the Call account in the Private ledger.

Dividend Book.—Where a company has issued only one class of shares the Dividend Book may be ruled in a manner very similar to the ordinary Day Book. Columns should be provided for the names and addresses of shareholders, the number of shares held, the amount paid up, the amount of dividend payable and the number of the dividend warrant issued. It is also advisable to provide a column showing the date when the dividend warrant was paid by the Bank and this column should be marked off from the Bank pass book. This will prove useful in enabling the company to ascertain without difficulty the holders of any warrants outstanding.

The total of the "Amount Paid" column should agree with the paid-up capital of the company, and that of the "Dividend" column with the total amount of the dividend payable. Where, however, the company has two or more classes of shares, say Ordinary and Preference, it is usual to include the dividends on both classes of shares to those shareholders who hold both Ordinary and Preference Shares, on the one dividend warrant, and it is necessary to duplicate "The Number of Shares held" and the "Amount paid up on Shares" columns, the first set being utilised for Ordinary Shares and the second for Preference Shares.

Register of Mortgages.—As mentioned in Chapter IX., every company is required to keep a register containing particulars of all mortgages or charges over any of the property of the company. This book must set out the date when the mortgage was given, the amount secured by the mortgage or charge, and the names, addresses and occupations of the mortgagees or persons entitled to the charge. It is open to the inspection of any member of the company and of any creditor. The failure to enter a mortgage in this register does not make the mortgage void, but any director, manager or other officer of the company who wilfully authorises or permits the omission incurs a heavy penalty. It should be noted that an entry in the Register of Mortgages is required even where the com-

pany has given no actual instrument creating the charge. Particulars must be entered in the Register of Mortgages even where the mortgage is created by merely lodging security with the mortgagee, e.g., the lodging of bond warrants with a Bank as security for an overdraft.

Where debentures are issued which create any mortgage or charge over any one or more of the assets of the company these also must be entered in the register, but it is not necessary to enter each debenture separately. It will be sufficient to note the number of debentures issued and the total amount of the charge created.

The accompanying illustration sets out how an issue of debentures might be entered in the Register of Mortgages.

It should be noted that in New Zealand, Queensland, and Victoria, particulars of every mortgage or charge created by a company which if given by an individual would require registration as a bill of sale or created for the purpose of securing an issue of debentures, must be filed with the Registrar of Companies within 30 days (N.Z. 21 days) after execution, otherwise it is void against the liquidator and creditors upon the winding up of the company.

Debenture Register.—In addition to the account in the Private ledger showing the total amount due to debenture holders it is necessary to keep a register setting out the particulars of the debentures held by the individual debenture holders, and this book is also utilised to show the interest due and paid to such holders.

In most cases arrangements are made by the directors of a company for placing the debentures without necessitating the solicitation of applications from the general public. Where, however, the latter course is followed a book should be used on the lines of the Application and Allotment Register, and no difficulty should be experienced in altering the ruling supplied to suit the circumstances. When debentures are issued to a debenture holder an account is opened for him in the Debenture Register and he is charged with the total amount due on the debentures in the debit money column. As he makes payment he will be credited from the Cash Book and when the debentures are fully paid the debit and credit columns will agree. The amount in the "Value of Debentures Held" column as shown by the illustration supplied will set out the total nominal value of the debentures held by him.

DEBENTURE REGISTER.

Name *Occupation* *Address*

Debentures Repayable *191...* *Interest Payable %*

Date	Particulars	Board Minte Folio	T'fer No	Issue	Distinctive Nos		No of Debs held	Fol.	Debenture A/c		Value of Debs held	Interest Account					
												Interest Paid			Interest Due		
					From	To			Dr	Cr		Date	CB Fol	Amount	Date	Fol	Amount

In New South Wales, by the Companies (Registration of Securities) Act, 1918, every mortgage or charge created by a company, to secure an issue of Debentures or over the uncalled or unpaid capital or book debts of the company, or which if executed by an individual would require registration as a bill of sale, or which gives a floating charge on the terest due on Debentures account. An entry will also be undertaking or property of the company must be registered within 30 days of its creation, otherwise such mortgage or charge will be void as security against the liquidator and any creditor of the company.

When interest falls due an entry will be passed in the Private ledger debiting Interest account and crediting Interest due on Debentures account. An entry will also be made in the credit Interest column in each debenture holder's account in the register and when payment is made an entry in the debit Interest column will be posted from the Cash Book. The total interest shown to have been paid by the Cash Book will be debited to Interest due on Debentures account in the Private ledger.

CHAPTER XII.

COMPANY ACCOUNTS—(Continued).—DOUBLE ACCOUNT SYSTEM.

The Double Account System is the term applied to the method of setting out a Balance Sheet of a company in two portions as distinct from the more familiar method of showing this statement in one part only. This system does not involve any change in the style of bookkeeping and it is quite possible for a company to keep its accounts in the ordinary way during a financial period and leave the decision as to which method of setting out the Balance Sheet is to be adopted until the accounts are finally prepared.

Stated briefly, this system involves the division of the Balance Sheet into two parts. The first part shows, on the one side, all receipts on capital account, including monies received from shareholders and also fixed loans and, on the other side, the capital expenditure. The difference between these two sides is then carried down to the second portion, which is shown in the form of an ordinary Balance Sheet, including the remaining assets and liabilities of the concern. See example at end of Chapter XIII.

The Double Account System, as it is used in Australasia, is a commercial adaptation of the statutory form of accounts provided for certain companies formed in England under special Acts of Parliament. These statutory forms reflect in a practical way the legal idea as to the manner in which expenditure on fixed assets should be treated, and it may be as well, before proceeding further, to consider what the legal idea in this connection is, in order to enable the Double Account System to be properly understood.

Suppose, for example, a company expends £10,000 upon a certain fixed asset. The law views that amount as being sunk and gone. This being the case there is no need to write off anything for depreciation, but if this asset requires renewal then the law requires that the cost of replacing that

asset must be charged against revenue. The commercial idea is to treat the £10,000 expenditure as the exchange of that much money for an equivalent in value and this equivalent is shown originally in the books at its full cost. As this value deteriorates the amount of the actual deterioration is charged against revenue, so that, by the time the asset has become useless, it will have been written out of the books by a series of periodical charges against the profits.

The final result in each case is the same, but the legal method of treatment results in charging the whole of the loss against one year's profits, whilst the commercial treatment charges an equitable proportion against each year. The latter method also results in a statement of the asset in the accounts at something approaching its actual value, whereas the former shows the asset at its original cost throughout. Under ordinary circumstances it is evident that the commercial treatment of a fixed asset in the books is by far the more sensible and accurate.

It will be clear from the above that in a Balance Sheet prepared from the legal standpoint the fixed assets will be stated at their original cost, whilst in one prepared from a commercial standpoint the fixed assets will be stated as closely as possible to their actual value. No such difference of opinion exists with regard to the valuation of floating assets, which should never be stated at more than their realisable values.

Keeping in view the above explanation and the distinction which the law makes between expenditure on fixed and floating assets, the reason for the division of the Balance Sheet into two portions, in the statutory forms already referred to, becomes intelligible. The first portion deals with capital items only, showing capital receipts and capital expenditure. In this portion no pretence is made of showing what are known as fixed assets at their actual values, the expenditure side of the statement being designed to show how the capital monies have been expended and the extent of such expenditure. The second portion, showing the floating assets and liabilities as in an ordinary Balance Sheet, requires, of course, no explanation, seeing that the legal view here corresponds with the commercial view.

By what can only be described as a fortuitous concurrence of circumstances, the statutory form of statements prescribed for those companies which were registered under the special Acts referred to, turned out to be those most suitable for their requirements. These concerns consisted mostly of railway, water and other companies of a like nature, and it is

clear that the bulk of the capital expenditure of concerns of this class could hardly result in the acquisition of anything which could be accurately described as an asset. Take, for instance, a water company, which expends a considerable portion of its capital in digging up the roads, laying down water mains and in filling the holes up again. The money so expended could hardly be said to have resulted in the acquisition of what would be viewed commercially as an asset, as the wages paid to the workmen performing this work could not be realised upon. Strictly speaking, therefore, it would not be accurate to state expenditure of this nature in the Balance Sheet as an asset, seeing that, in most cases, its realisable value would be far below the amount spent, and the method prescribed by the statutory form of showing the amounts so paid as the expenditure of so much of the capital appears to be the better one under the circumstances. Practically, the same point arises in connection with a considerable portion of the capital expenditure of a gas company and, perhaps to a lesser extent, of a railway company.

The statutory statements already referred to are, of course, only compulsory with those companies which are registered in England under the special Acts, but this form of accounts has been adopted somewhat widely in recent years amongst other companies of a similar nature which recognise that the Double Account System is suitable for their requirements. This form of presenting the published accounts is particularly adapted to companies such as railway, tramway, gas, water, and mining companies.

An objection frequently urged against the Double Account System is that it is impossible to write off depreciation from the fixed assets, and that these assets are therefore overstated in the Balance Sheet. This objection, however, is not a legitimate one, as no pretence is made of stating the fixed assets at their actual values, and no one is therefore deceived. As the first portion of the published accounts is designed to show merely the extent of the capital expenditure, it is clearly impossible to write off depreciation in the usual way. It would create an absurd position to attempt to write off depreciation from what is simply a statement of cash expenditure.

If it is desired to provide for depreciation in connection with any of the items in the first part of the Balance Sheet this can be done by setting up a Depreciation Reserve. This will prevent the profits being overstated and the necessary renewal of any of the fixed assets can be charged against this reserve instead of against one year's profits.

The Double and Single Account Systems.—From time to time there has been a considerable amount of discussion as to which of these two systems provides the better method of setting out the accounts of companies. From the explanation already supplied it will be seen that the Double Account System cannot be used indiscriminately and that, whilst it is suitable for concerns of the nature indicated, it could hardly be utilised in connection with ordinary trading concerns. This being the case, any general discussion as to the relative advantages of the two systems would be out of the question.

From the commercial point of view the Double Account System is applicable only to those ventures which sink the bulk of their capital in the construction or acquisition of works of a permanent nature, where such expenditure, or a considerable portion of it, cannot be said to result in the acquisition of what might be termed realisable assets. On the other hand, this system is not at all suitable for ordinary trading concerns where the bulk of the capital consists of floating assets and capital expenditure results in the acquisition of realisable assets. In such companies it is evident that it is quite correct to state all the capital expenditure in the Balance Sheet under the heading of "Assets."

Numbers of objections have been raised against the use of the Double Account System under any circumstances whatever. Most of the opponents of the system apparently ignore the underlying principles and confine their attention to details which prove on investigation not to be inherent portions thereof. Allowing that there are objectionable features in the statutory forms from which the idea was originally taken, it might be pointed out that commercial concerns desirous of adopting the Double Account System are under no obligations to perpetuate such features whilst applying to their own use the main principles. In fact, every feature in the original forms against which an objection has been urged could be eliminated without destroying the utility of the system for commercial purposes.

The majority of the objections urged are the outcome of the supposition that it is impossible to provide for depreciation under the Double Account System. It has already been shown that this is a mistaken notion, as depreciation can readily be provided for by means of a depreciation reserve. Another objection is that the first portion of the Balance Sheet will show the fixed assets at more than their actual value, as nothing can be written off for depreciation. Seeing that the first portion of the account is in reality nothing more or less than a summary of the Cash Receipts and Expenditure

on account of capital, and as such makes no pretence of showing the amount paid as assets, this objection can hardly be taken seriously.

Again, the statutory forms already referred to provide for the permanent capitalisation of Preliminary Expenses, and this is seized upon as another objectionable feature of the Double Account System. There is no reason why Preliminary Expenses should not be shown in the second portion of the published statements and written off by periodical charges against profits in the usual way.

The examples at the end of the next chapter show the Balance Sheet of a Mining company set out in the first place on the Single Account System and, secondly, as it would appear if set out under the Double Account System. It will be noticed that all monies received from shareholders are shown on the one side of the first portion of the statement and all capital expenditure on the other side. The excess of the capital receipts over capital expenditure is then carried to the second portion of the statement, which is set out in the form of an ordinary Balance Sheet. The difference in the treatment of depreciation should also be noted. It is thought that a careful study of these examples will make the idea of the Double Account System perfectly clear.

CHAPTER XIII.

MINING COMPANIES' ACCOUNTS.

No-Liability Companies.—In each of the States* in Australasia provision is made whereby companies formed for the purposes of mining may be registered under the various Companies Acts, on the no-liability principle. This system can best be described by quoting the definition supplied in the New South Wales Companies Act, Section 194, which says:—"The acceptance of a share in any company registered under this part of this Act (the part relating to no-liability companies), whether by subscription to the memorandum for registration or by original allotment, or by transfer or otherwise, shall not be deemed a contract on the part of the person accepting the same to pay any calls in respect thereof or to pay any contribution to the debts and liabilities of the company, and such person shall not be liable for any such calls or contributions, but he shall not be entitled to receive a dividend upon any share upon which a call is due and unpaid."

The law as to no-liability companies is very similar in all the States, but some differences exist in matters of detail which will be noted through this chapter. The provisions as to registration are somewhat similar to those relating to companies limited by shares. In all the States, except Victoria and Tasmania, the memorandum must be signed by the same number of persons required in the case of a company with limited liability. In the two States named the memorandum requires to be signed only by the manager of the company.

Every company registered on this principle must add the words "No-Liability," as the last words of the name of such company. The memorandum must contain the particulars set out in the schedules to the Acts in the various States, but it is not considered necessary to set out such particulars in detail here, as these vary, and may be easily ascertained by reference to the schedules mentioned. Notice of intention to register such a company must be advertised in the Gazette, and in at least one newspaper circulating in the town or dis-

*Note.—To save repetition the word "State" or "States" will, for the purposes of this chapter, be read so as to cover the Dominion of New Zealand.

trict in which the company's registered office is to be situated. A copy of the Gazette and all the newspapers referred to must be supplied to the Registrar of Companies.

In most of the States the requirements upon registration are slightly more stringent than in the case of companies registered with limited liability. In Western Australia and Queensland a mining company cannot be registered under the no-liability principle unless 5 per cent. of the nominal capital is paid up in cash. In Victoria at least 5 per cent. of the subscribed capital must be paid, and in New South Wales 10 per cent. of the contributing capital must be paid in cash.

"Contributing Capital" means the full nominal capital with which a company is registered, less so much of the capital as is represented by shares issued for a consideration other than cash as fully paid up, and less also the paid-up portion of any shares issued as partly paid-up for a consideration other than cash. This may be made clearer by an illustration. Suppose a company were formed with a nominal capital of 20,000 shares of £1 each, 5,000 of which were issued as fully paid up to the vendors of the mine. The contributing capital in this case would be £15,000. Suppose, however, it were agreed to issue to the vendors in payment for the mine, 3,000 shares fully paid up, and 6,000 shares paid up to 10/-, the contributing capital would be £14,000, i.e., £20,000 less £3,000, being 3,000 shares of £1 each, fully paid up and less £3,000 representing the paid-up portion of 6,000 shares issued as paid up to 10/- per share.

Calls on Shares.—In all the States except Western Australia, Queensland, and N.Z., it is provided that the calls upon shares in No-Liability Companies must be made in such time and manner that they shall become due on the second Wednesday in a month, and on that day only. If, however, such Wednesday is a public holiday they shall become due on the next succeeding business day, which is not a public holiday. A notice must be printed on the face of the Company's Share Certificate, stating that the day above mentioned is the day on which calls fall due. At least seven days (in West. Aust. 14 days) notice must be given to each member of the date on which the call is payable.

Forfeiture of Shares.—As persons holding shares are under no compulsion to pay the calls made upon them it is clear that more stringent provisions as to forfeiture of shares must be made than in the case of limited liability companies, where members can be sued and compelled to pay the calls

levied. The various Acts provide that, where a call remains unpaid, at the expiration of fourteen days (Queensland, 26 days; N.Z., 21 days) after the day upon which it was payable, any shares upon which the call is unpaid shall thereupon be absolutely forfeited without any resolution of the directors or other proceeding.

Such shares when forfeited are to be sold by public auction after due notice of intention to sell has been advertised as required. The proceeds of the sale are to be applied in payment of the overdue calls and any expenses necessarily incurred in respect of the forfeiture, and the balance, if any, must be paid over to the person whose shares have been forfeited, upon his delivering to the company the certificate representing the forfeited shares. In New South Wales, if the amount bid for such shares is not sufficient to pay overdue calls and expenses, the directors may refuse to sell them by auction and in such a case they may sell the shares in such manner as they think fit. In the other States (except Queensland) if an insufficient amount is offered at auction the directors may acquire the shares on behalf of the company.

In all States (except Queensland) provision is made whereby the directors may, at any time before the forfeited shares have been sold, annul the forfeiture upon payment by the shareholder of the amount of the overdue calls, together with any expenses incurred in connection with the shares. A No-Liability Company must keep a Register of Members in the same form as that required to be kept by companies with limited liability.

Opening Entries in Books.—The opening entries in the books of a No-Liability Company are similar to those required in the case of a company registered with limited liability. Unallotted Shares account is debited with the nominal value of the shares with which the company is registered and Nominal Capital account is credited. Uncalled Capital account is then debited with the number of shares and Unallotted Shares account credited. Accounts will be opened for Application and Allotment monies, and a separate account for each of the calls made.

In most cases a mining company is formed to take over a mining property from a private individual, or a syndicate, so that the opening up of the books of the company will usually involve a record of the purchase of a mine and the issue of shares as fully or partly paid up by the vendor in payment therefor. These entries present no difficulty, Mining Property account being debited, and the Vendor's account credited with the amount of the consideration for the

purchase of the mine. The vendors will then be debited with the value of the shares issued to them.

If the shares are issued as fully paid up, the corresponding entry will be in Unallotted Shares account, but if shares are issued as only partly paid up it will be necessary to bring the full nominal value of the shares into Uncalled Capital account, the vendor being debited with the proportion considered as paid up and Uncalled Capital account credited. The last-mentioned account will then contain an amount equalling the proportion still uncalled on these shares. It is thought that an illustration will help to make this procedure clearer.

The Waratah Gold Mining Company, No-Liability, was formed to take over a mining property from a syndicate. The company was registered with a capital of 50,000 shares of £1 each, and the price to be paid to the syndicate was agreed upon at £7,500, to be paid in 5,000 shares issued as fully paid up, and 5,000 shares issued as paid up to 10/- per share. The remainder of the shares had been subscribed for by the public, and the sum of 2/6 was paid on application and 2/6 on allotment. The Journal entries in connection with the above would appear as follow:—

Unallotted Shares A/c .. .. Dr.	£50,000	
To Nominal Capital A/c		£50,000
Being Registered Capital of the Company divided into 50,000 shares of £1 each as per Memorandum of Association.		
Uncalled Capital A/c .. .. Dr.	45,000	
Vendor's A/c .. .. Dr.	5,000	
To Unallotted Shares A/c		50,000
Being 45,000 shares subscribed for and 5,000 shares issued as fully paid up to the Vendor in part consideration for the Mine as per agreement dated		
Vendor's A/c .. .. Dr.	2,500	
To Uncalled Capital A/c		2,500
Being 5,000 shares issued to the Vendor as paid up to 10/ per share for balance of the purchase money for Mine as per agreement dated		
Application A/c .. .. Dr.	5,000	
Allotment A/c .. .. Dr.	5,000	
To Uncalled Capital A/c		10,000
Being 2/6 per share payable on Application and 2/6 per share payable on Allotment on 40 000 shares as per Directors' Minute Book, Fol.		
Mining Property A/c .. .. Dr.	7,500	
To Vendor's A/c		7,500
Being purchase price of Mine taken over from Syndicate in terms of the agreement dated		

It might be noted here that, where a No-Liability Company decides to issue any Unallotted Shares, these are frequently issued as paid up to the same amount per share as

are those shares already held by shareholders. Suppose, for example, that the shares already taken up were paid to 10/- per share, any new shares subscribed for thereafter would usually be issued as paid up to that amount per share. In order to adjust Uncalled Capital account, so that it will show the actual amount liable to be called up on the shares so issued, this account will be credited with 10/- per share of the new issue, the corresponding debit entry being made in Mine account.

The items making up the balance of Mine account are often of a nondescript nature. In addition to the purchase price of the mine, this account is, in most cases, charged with cost of preliminary and development expenses and any expenses of working the mine up to the stage where it can be run on a profitable footing, such expenses being treated as capital expenditure. The effect of this is, of course, to enable any profits subsequently earned to be distributed by way of dividend, without the necessity of first wiping out an adverse balance in Profit and Loss account. The procedure indicated in the previous paragraph would be anything but a proper one in the case of an ordinary trading concern, but it must be remembered that the circumstances under which mining companies of this class are run are totally different and it is not necessary to observe the same strictness in principle. This matter is, however, dealt with a little later in this chapter.

Entries on Forfeiture of Shares.—The general procedure upon the forfeiture of shares has already been dealt with, but, as the bookkeeping in connection with the forfeiture is somewhat different from that in the case of a limited company, it is necessary to describe briefly the entries which will require to be made in the books of a No-Liability Company. As has already been seen, any shares forfeited must be offered for sale by public auction by the directors and the amounts received on sale of the shares must be applied, firstly, in payment of the call in respect of which the shares have been forfeited and, secondly, in payment of any expenses incurred in the sale of the shares, any surplus being refunded to the shareholder upon the surrender of the share certificate. If the price offered for the shares at auction is not satisfactory the directors can either acquire these shares on behalf of the company, or sell them privately, as already mentioned.

It will be seen, therefore, that when shares in a No-Liability Company are forfeited they do not necessarily become unallotted shares capable of being reissued by the company at their nominal value as in the case of shares forfeited by a limited company. These shares may or may not realise

the amount necessary to cover the unpaid call and the expenses incurred. If they realise more than this amount the surplus must be handed over to the old shareholder, but if they realise less, the loss must be borne by the company.

The first entry required when shares are forfeited is a transfer of the amount of the unpaid call to the debit of Forfeited Shares account, and the amount received on sale of the shares, if they are sold, is credited to this account. If the amount realised equals or exceeds the amount of the unpaid calls, plus the expenses of selling, a Journal entry is passed transferring such expenses from the nominal accounts to which they are originally charged, to the debit of Forfeited Shares account. The balance of this account, if any, will then be transferred to the credit of the shareholder's personal account, and the amount paid over to him in cash.

If the amount received on sale of the shares exceeds the amount of the unpaid call, but is not sufficient to cover also the whole of the expense of selling, only so much of such expenses will be transferred to the debit of Forfeited Shares account as will suffice to close that account off, the balance of these expenses being left in the nominal accounts.

If the amount realised on sale of the shares is less than the amount of the unpaid call, or, if the shares prove to be unsaleable altogether, none of the expenses paid will be transferred to Forfeited Shares account and the debit balance in that account will be brought down. In setting out the Capital accounts in the Balance Sheet of a company under the circumstances now being considered, the balance of the Forfeited Shares account will be deducted from the called-up capital—the treatment being the same as in the case of unpaid calls in a limited company—in order to enable the actual paid-up capital to be shown.

The following illustration shows how the Forfeited Shares account would appear in each of the three sets of circumstances indicated above.

(No. 1.)

FORFEITED SHARES ACCOUNT.

To Unpaid Call (No. 3)	£2 10 0	By Cash	£5 15 0
„ Expenses, Advertising, etc.	2 0 0		
„ Shareholders Personal Account	1 5 0		
	£5 15 0		£5 15 0

(No. 2.)

FORFEITED SHARES ACCOUNT.

To Unpaid Call (No. 3)	£2 10 0	By Cash	£3 0 0
" Part Exs. Advertising, etc.	0 10 0		
	£3 0 0		£3 0 0

(No. 3.)

FORFEITED SHARES ACCOUNT.

To Unpaid Call (No. 3) .	£2 10 0	By Cash	£2 0 0
		" Balance Down	0 10 0
	£2 10 0		£2 10 0

General Bookkeeping.—In most cases the office of a mining company is situated at some distance from the mine, and the major portion of the bookkeeping work is, of course, carried out at the office. The amount of clerical work to be performed at the mine should, therefore, be reduced to a minimum, and in most cases this will resolve itself into the keeping of what would, in an ordinary trading company, be described as Cost Accounts. It will be necessary to have a Stores Book, showing stores, such as explosives, &c., purchased and issued, together with a Wages Book, setting out full details of the wages paid. A statement should be supplied to the office at least fortnightly showing stores issued, wages and other expenses paid, dissected under proper headings. These headings should be designed so as to show the cost of the various processes to which the ore is subjected and also other expenditure, such as reports and maintenance of machinery, cost of further development of mine, &c.

It is usual, more especially in those cases where the mine is situated in an outlying part, to provide the mine manager with funds to meet current expenses and to give him authority to pay the necessary expenses out of these funds as occasion may arise. Of course any extraordinary payments, such as the requisition of additional machinery, &c., would require to be first passed by the directors in the usual way.

Where such authority is given to the mine manager it is advisable that any advance made to him should be conducted upon the Imprest System. This system provides for an advance of as much as will be usually required to cover the fortnight's expenses. After each pay day he should supply the returns indicated above showing how the amounts have been expended and the various headings under which the expenditure is chargeable, to the general office. The office will then reimburse him the exact amount of the expenditure

which will bring his funds up to the amount of the original advance.

Revenue Account.—The first portion of the Revenue account of a mining company, usually called Working account, is prepared on somewhat similar lines to the Trading account of an ordinary business. The chief income of a mining company is of course the proceeds of the sale of its ore, or metal, and the total proceeds will be credited to the Working account. All expenses of working the mine, including wages (divided under its various headings), royalties, rents, &c., are charged against the Working account, the balance, representing the gross profit, being carried down to Profit and Loss account. This account is charged with all office expenses and the balance represents the net profit.

It is the custom in the average mining company (and the reference at present is more particularly to metal-mining companies) to ignore altogether the question of depreciation and to treat as available for dividend the excess of current income over current expenses. Such companies are not formed for the purpose of being conducted permanently, but may be viewed more correctly as speculations. This being the case the necessity for keeping the capital intact is lacking, and it is considered advisable to return the whole of the surplus receipts over expenditure to the shareholders each year and allow them to divide these dividends between capital and revenue. As it is unusual for a company formed on the No-Liability principle to get credit it will be seen that no injustice can be done to third parties by the adoption of such a course, and, as is fully explained in Chapter III. dealing with Depreciation, this method of treatment is under the circumstances to be recommended. Of course, if it is evident that certain of the assets will require renewal before the mine is worked out, it will be advisable to provide for their renewal and, in such a case, a Depreciation Reserve should be instituted.

Balance Sheet.—In view of the above it is evident that the best method of setting out the Balance Sheet of a mining company is the Double Account System described in Chapter XII., and illustrated at the end of this chapter. The first portion of the statement will show the capital contributed by the shareholders and how this capital has been expended in the development of the mine, the erection of the mining plant, &c. Nothing will be written off this expenditure for depreciation and it will appear in the first portion of the Balance Sheet at the original cost plus the additions necessary from time to time. All preliminary and development

expenses, up to the time when the mine is at the stage where it can be run on a profitable basis, are treated as capital expenditure, and this enables the whole of any profits earned thereafter to be distributed by way of dividend.

It might be mentioned that, in New South Wales, the Companies Act prescribes that a No-Liability Mining Company must prepare its Balance Sheet in the form attached to Table "A" of the Act, so that the Double Account System could not be adopted in that State. A copy of such Balance Sheet must be filed with the Registrar within one month after the date of the general meeting of the company.

In Victoria and Tasmania half-yearly statements must be prepared and filed.

In New Zealand, the directors of every mining company must, in the month of January in each year, prepare and publish in the "Gazette" a Balance Sheet made up on the 31st December of the preceding year.

LIMITED MINING COMPANIES.—Provision is made under the Companies Acts in Victoria, Tasmania, and N Z. for the formation of Limited Mining Companies. These provisions are very similar to those relating to No-Liability Companies except that the word "Limited" must be used as the last word of the name in the place of "No-Liability," and every shareholder is liable to contribute to the assets of the company, in the event of winding up, in the same manner as a shareholder in a limited trading company. Where shareholders do not pay calls within fourteen days (N.Z. twenty-one days) after they are due, the shares are absolutely forfeited and sold by auction.

In Victoria provision is made for the formation of Prepayment Mining Companies to be registered in the same way as other mining companies and using the words "Limited with Prepayment" as the last words of their names. In these companies no part of the expenditure incurred at or previous to the time of making a call shall be paid out of such call, but an estimate shall be made of the sum probably required for working expenses during the month and a call shall be made to meet same and such call shall be a debt due to the company.

The following illustrations show the Balance Sheet of a No-Liability Mining Company set out under both the Single Account and Double Account Systems.

THE SOUTHERN REEFS GOLD MINING CO., LTD.

Balance Sheet as on 30th June, 191 .

NO. 1 STATEMENT OF CAPITAL.

PAYMENTS.

	To 30/6/1.	This Year.	Total.
Mining Property:			
Cost of four Mining Leases (45 acres) at Kalgoorlie W., W.A., including all developments, etc.	124,110 17 9	4,449 6 10	128,560 4 7
Plant and Machinery:			
Winding, Pumping Engine, Boiler, 20-Stamp Battery, etc.	6,808 18 6		
Additions to Cyanide Plant		2,146 7 5	8,955 5 11
Buildings and Furniture .. .	604 19 1	710 19 7	1,315 18 8
Balance—Representing excess of Capital Receipts over Capital Payments carried to Statement 2			1,468 17 10
	131,524 15 4	7,306 13 10	140,300 7 0

RECEIPTS.

			To 30/6/1.	This Year.	Total.
Registered Capital—160,000 sh. of £1	160,000				
Less Unallotted Shares	19,693				
Subscribed and called - up Capital ...	140,307				
Less Calls in Arrears ...		6 13 0	133,291 13 0	7,008 14 0	140,300 7 0
		140,300 7 0			
			133,291 13 0	7,008 14 0	140,300 7 0

NO. 2—GENERAL BALANCE SHEET.

LIABILITIES.	£ s d	£ s d	ASSETS.	£ s d	£ s d
Balance of Statement No. 1 above		1,468 17 10	Sundry Debtors and Payments in Advance		487 13 5
Depreciation Reserve A/c		1,027 2 5	Gold in Transit—Kalgoorlie to London and		
Sundry Creditors		1,690 8 2	Melbourne	8,115 19 2	
Unclaimed Dividends		86 10 0	Cash:—		
Profit and Loss Account—			At Commercial Bank	2,899 9 3	
Profit for 12 mos. to 30th June, 191 ..	17,759 10 1		In hand	6 6 2	11,021 14 7
Less:					
Interim Div. at 1/ p.s. .. 7,015 7 0					
,, ,, 6d. p.s. .. 3,507 13 6	10,523 0 6	7,236 9 7			
		£11,509 8 0			£11,509 8 0

THE SOUTHERN REEFS GOLD MINING CO., LTD.

Balance-Sheet as on 30th June, 191 .

LIABILITIES.

Registered Capital—			
160,000 shares of £1 each		£160,000 0 0	
Less Unallotted Shares—			
19,693 shares of £1 each ..		19,693 0 0	
Subscribed Capital, fully called		140,307 0 0	
Less Calls in Arrears		6 13 0	£140,300 7 0
Sundry Creditors			1,690 8 2
Unclaimed Dividends			86 10 0
Profit and Loss Account—			
Profit for 12 mos. to 30th June, 191		17,759 10 1	
Less—			
Interim Div. of 1/ p.s .. .	7,015 7 0		
Interim Div. of 6d. p s. ..	3,507 13 6		
		10,523 0 6	7,236 9 7
			£149,313 14 9

ASSETS.

Mining Property—		
Cost of four mining leases (48 acres), situated at Kalgoorlie West, including all developments, etc.	£124,110 17 9	
Plus Development Expenses during year	4,449 6 10	£128,560 4 7
Plant and Machinery—		
Winding, Pumping Engine, Boiler, 20-stamp Battery, &c.	6,808 18 6	
Plus additions, including Cyanide Plant	2,146 7 5	
	£8,955 5 11	
Less Depreciation, at 10 p.c. pa.	895 10 7	
		8,059 15 4
Buildings and Furniture	604 19 1	
Plus additions during year ..	710 19 7	
	1,315 18 8	
Less Depreciation at 10 p.c. p.a.	131 11 10	
		1,184 6 10
Sundry Debtors and Payments in Advance		487 13 5
Gold in Transit—Kalgoorlie to London and Melbourne ..	8,115 19 2	
Cash—		
At Commercial Bank	2,899 9 3	
In hand	6 6 2	
		11,021 14 7
		£149,313 14 9

CHAPTER XIV.

*FOREIGN EXCHANGE AND BANK RATES OF EXCHANGE.

Foreign Exchanges.—As is the case with a number of commercial expressions in frequent use it is somewhat difficult to give a satisfactory definition of the term "Foreign Exchanges" in a few words. One that is sometimes seen is that it is the means by which one country settles with another for the balance owing, and the "rate of exchange" is the cost of effecting this settlement.

The Basis of Exchange.—In order to enable some idea of this difficult subject to be gained it will perhaps be advisable to consider, in the first place, the elements of trade and the place which gold takes as a means of enabling this trade to be conducted along systematic lines. In ancient times all trade was conducted by means of barter, i.e., the exchange of one commodity for another. A person with, say, skins to dispose of, and requiring arrow-heads would exchange a certain quantity of skins for their equivalent in arrow-heads. This, as will be seen, was a very unwieldy and unsatisfactory method of doing business, especially as, with the advance of civilisation, the requirements of the human being became more complex. At a later stage, precious metals became the basis upon which the exchange was effected; persons desiring to trade together would reduce the value of their commodities to a common basis and any difference between the respective values would be handed over in gold, silver, &c.

Finally, the present-day coinage came into general use, and by the Coinage Act the amount of pure gold which must be contained in each sovereign was fixed. At the same time the Act provided that anyone could demand payment in gold of any amount due to him exceeding £2, and the position now is that anyone having goods to sell reduces the value of such goods to their equivalent in gold. This,

[*During the currency of the Great War, and as a result of it, such extraordinary conditions of trade and finance prevailed that any attempt to explain the principles of this important subject in a general text-book of this nature by supplying present-day examples and rates would prove valueless. It has therefore been considered advisable to deal with Exchange under normal pre-war conditions.]

of course, forms a more convenient basis of settlement. It might be pointed out in passing that a species of barter still exists, the difference being that in every case, the value of the goods exchanged is reduced to a common basis. Persons having mutual dealings ascertain the value of the goods respectively supplied and settle up the difference in gold.

Where a trader has dealings with a foreign country a new element enters into the transaction. A London trader sending goods to Paris will set out the value of the goods in sovereigns. The Paris trader will reckon their value in francs and in order to enable a settlement to be effected both the seller and buyer must arrive at a common basis upon which to estimate the value of the goods. It is found that a sovereign contains the same amount of pure gold as 25.22 francs, so that, if a Paris trader has to pay a London merchant the value of £100 worth of goods, it will necessitate the remittance of 2522 francs. The comparison of the amount of pure gold in the currency of foreign countries with that contained in the sovereign is known as the "Mint par of Exchange." As between Paris and London the mint par of exchange is quoted at 25.22 (about).

It might be noted at this stage that the value of the sovereign is fixed and the rate of exchange is quoted, even in London, in the foreign currency (except in the case of Russia, Spain, and United States), any fluctuation in the rate being noted by an increase or decrease in the value of the foreign currency as compared with the sovereign.

Mode of Settlement.—It is, perhaps, hardly necessary to mention that, every time a London merchant sells goods to a Paris trader, or vice versa, the purchaser will not have to remit the value of the goods in gold to the seller, as this would prove an extremely expensive method of settling the debt. So far as the merchants are concerned, these debts are settled by means of bills of exchange, but it must not be overlooked that at the back of these bills there must always be gold. It will be readily understood that, owing to the expense of remitting, gold is not used in the settlement of debts except as a last resource and if they can be discharged altogether by means of bills of exchange, this will be done.

Suppose, for instance, A in London sells £100 worth of goods to B in Paris, and that C in Paris sells 2522 francs worth of goods to D in London; both A and C could get paid the full amount owing to them without incurring any expense, by means of bills of exchange. C in Paris could draw on D in London for the amount owing, £100; B, also in Paris, could buy this draft from C, giving him 2522 francs for it, and remit it to A in London, who could then collect the £100 from D. Both creditors receive payment for their

goods without any deduction for expenses such as would be occasioned by remitting gold.

The settlement of a majority of the debts between English merchants and those in other countries is effected either by the foreign merchants drawing on the London buyers (in the case of goods sold to London) or by the foreign purchasers remitting to London (in the case of goods purchased therefrom). There are, of course, many occasions when drafts are drawn in London upon foreign purchasers, but probably the greater part of the transactions is settled in the manner indicated. In the illustration already supplied it will be seen that A received payment for his goods by a remittance upon D, and this is a common method of settling such transactions. There are numerous reasons why this mode of settlement is the more usual, but it would perhaps unduly complicate matters to state them here, and it will be sufficient to take due note of the fact. It will also be seen from this that, as the drawing and purchasing of drafts are done in the foreign countries, the rate of foreign exchange is fixed in those countries and not in England. (This is, of course, a general statement for, as will be seen later, the Bank of England, by altering its discount rate, can cause the rate of exchange to vary.)

Assuming that London always purchased from Paris the same value in goods that it sold to Paris, a settlement of the whole of the debts between these two cities could be effected by the sellers in Paris drawing upon the London buyers for the various amounts due. These drafts would be bought up by those merchants in Paris who had purchased from London and remitted to the vendors in London. Under such circumstances the value of the drafts available would always be just sufficient for the requirements of persons desiring to remit, and Paris buyers would always be willing to pay 2522 francs for every draft of £100. If, therefore, the trade between two countries were exactly equal, the rate of exchange between these two countries would (leaving out of consideration outside influences) always be the mint par of exchange. It might be wondered by what means those having drafts on London to sell are brought into touch with those desirous of purchasing. In all European capitals there are established Bill Brokers whose regular calling it is to buy and sell trade bills, and both buyers and sellers of such bills deal through these brokers.

Fluctuation in Rate.—Suppose now that Paris has been selling to London considerably more than it has been purchasing from London. This will mean that the supply of drafts on London will be in excess of the requirements of purchasers of such drafts. The drawers will naturally be

anxious to find purchasers for their drafts, but the ordinary rule of supply and demand will apply and they will be competing against one another, lowering the prices in order to induce sales. It has already been shown that where a drawer can get payment for goods sold to London without any deduction, i.e., get 25.22 francs for every £1 drawn for, he has obtained a satisfactory settlement, as he has not been required to stand any cost of remittance, and it will be seen, further, that it will pay him to accept any price for his draft which will prove cheaper than getting the London dealer to remit gold. It is the cost of remitting gold to him which determines the lowest price he will accept.

The cost of forwarding gold from London to Paris is generally reckoned at 10 centimes (about one penny) to the £1, so that if the rate of exchange gets below 25.12 francs to the £1 it will pay a drawer better to instruct his London customer to forward gold in settlement of the debt than to draw a bill of exchange on his customer. When the rate of exchange between Paris and London gets below 25.12 francs it is said to have reached "export gold point," and the exchange is said to be against London, because the tendency is to cause gold to be sent away from London.

The export of gold from London to foreign countries has to be guarded against, as the prosperity of any country depends largely upon the amount of gold circulating in that country, and if money is "tight" trade immediately slackens. The banks must for their own safety keep certain gold reserves against the amount owing by them to their customers —most of the banks in England lodge a considerable proportion of their reserves with the Bank of England, so that the duty of keeping the gold reserves of the English banks intact devolves to all intents and purposes upon the Bank of England. These reserves must necessarily be kept up, and if any gold is being exported from England it must, in effect, be withdrawn from the gold circulating amongst the various business concerns throughout the country.

It would be impossible to go fully into this phase of the subject here, and it will be sufficient to note that any diminution in the amount of gold circulating is bad for trade. It is, of course, in the interests of the banks that trade should be in a flourishing condition and, where the Bank of England can see that the exchange rate with any country has reached a point where the tendency will be to cause gold to be exported, it takes steps, where possible, to remedy that state of affairs.

It has been seen that the reason why the exchange rate between Paris and London falls is that the supply of drafts on London is in excess of the demand, and it is obvious that, if the demand for these drafts can be stimulated sufficiently, the rate will rise above "export gold point" and this will result in a cessation of the export of gold from London. The Bank of England can stimulate artificially the demand for drafts upon London by putting up its discount rate.

Why an increase in the rate at which the Bank of England will discount bills should result in an increased demand for drafts on London may require some explanation. Assume that the rate of exchange quoted between Paris and London is that for demand drafts. If a draft is drawn by a Paris merchant on London at thirty days' sight the amount he will receive for that draft will be calculated at the demand rate less interest for thirty days. The rate of interest charged is the rate at which the bill could be discounted in London. Ordinarily the only persons requiring drafts on London will be those who have to remit drafts in settlement of their debts, but, if the Bank of England increases its discount rate to any considerable extent, it will mean that another class of persons will desire to purchase these drafts, viz., investors. It will pay the latter to buy the drafts available at the current demand rate (which is, for the time being, low) less interest for the term of the drafts, the rate of interest being the discount rate in London, and to hold them until they are due, as they will have earned a good rate of interest during the currency of the drafts.

The ordinary discount rate of the Bank of England is about 3 per cent., and this rate of interest offers no attraction to investors unless local rates of interest are less, but if the discount rate in London is increased to 6 per cent., the result will be that investors will be anxious to secure time drafts on London in order to receive this rate of interest until they mature. As drafts on London will then become a desirable investment, there will naturally be an increased demand therefor, and this, in turn, will result in the rate of exchange between Paris and London being increased to something above "export gold point," thus achieving the aim of the Bank of England. Directly the rate gets above 25.12 it will pay the drawers better to sell their drafts on London than to import gold.

If the foregoing explanations are followed, no difficulty should be experienced in understanding the circumstances under which the rate of exchange between Paris and London will go above par. Where London has been selling consider-

ably more to Paris than it has been purchasing therefrom, it will mean that the demand for drafts on London will be in excess of the amount of drafts available. As the demand exceeds the supply the result will be that the rate will go up and (leaving out of consideration, for the time being, bills other than trade bills) the persons desiring to remit will be willing to pay any premium above par rate, which will be cheaper than forwarding gold to London. It will be remembered that the cost of freight on gold between Paris and London is ten centimes to the £1, so that the "import gold point" is about 25.32. If the rate of exchange goes higher than 25.32 it will pay remitters better to forward gold than to buy trade bills from drawers, so that it is practically impossible for the rate between Paris and London to go much higher than that mentioned.

It might be pointed out, however, that the rate very seldom reaches this point, as persons desiring to remit have at their disposal practically an inexhaustible supply of bills other than trade bills, viz., Bank drafts. Generally speaking, the remitters will prefer to obtain trade bills, because they are, except on rare occasions, cheaper than Bank drafts. But when the cost of trade bills gets above, say, 25.26, it becomes cheaper for the remitters to purchase Bank drafts in London, i.e., the banks in Paris will draw upon their London houses for the required amounts and will sell those drafts to the remitters at about 25.26 francs to the £1. The bank rate of exchange between Paris and London does not, however, always remain at this figure, as it must always depend, to a large extent, upon the cost to the Paris bankers of providing the funds to meet these drafts on London.

Sometimes the Paris banks have on hand a number of trade bills on London which they have previously purchased at a fairly low rate of exchange. If they can sell these drafts to the remitters at 25.26 they make a good profit, but, if they have no London bills available, they will have to find some means of meeting their own drafts and the rate of exchange charged by them will depend upon the cost of covering these drafts.

One method adopted of providing this cover is by the purchase of bills on other Continental cities, these bills being sent to London for collection or sale, with instructions to place the proceeds to the credit of the Paris bank in London. At certain periods of the year it is quite possible that the cost of covering Bank drafts will reach "import gold point," from the London standpoint, and the natural result will be the despatch of gold from Paris to London.

Up to this stage the exchange as between London and Paris has been dealt with exclusively, but it will be understood that the same principles apply between London and any other capital. For example, the mint par of exchange between London and New York is 4.86 (about), i.e., there is the same amount of fine gold in 4.86 dollars as in a sovereign, and if the rate of exchange between London and New York were always at par 486 dollars would always buy a draft on London for £100. The "import gold point" between New York and London is about 4.90, and when the exchange rate between those two cities reaches about this figure there is always the tendency for gold to flow into England from the United States. The "export gold point" is 4.83.

At certain periods of the year, chiefly in the autumn when the United States is exporting a lot of grain to England and drafts on London are plentiful, the exchange rate tends to get below this point and a considerable amount of gold is shipped from London to New York. The Bank of England by increasing its discount rate checks this outflow as much as possible.

It is hoped that the foregoing explanation will enable some idea of this important subject to be obtained. It hardly requires pointing out that in the amount of space available, only the fringe of the subject could be touched upon, but all side issues have purposely been omitted in order that the main points might not be obscured. There are, for example, numerous factors other than the settling of trade debts between two countries which affect, more or less directly, the rate of exchange between those countries, but, speaking generally, any fluctuations in the rates may be set down to the causes mentioned herein.

In connection with the explanation already given, it should be specially noted that the rate quoted always includes exchange or commission.

The following example will perhaps serve to illustrate the foregoing points:—

A Sydney firm instructed its New York agents to purchase 5000 cases of kerosene on which freight was paid in New York and the total amount of the purchase was 10,000 dollars. In order to obtain a settlement the New York agents draw on the London

house of the Australian firm at sight at 4.89. The London house has then to negotiate its draft on Sydney at 60 days at $2\frac{3}{4}$ per cent. in order to reimburse itself. Show the amount of the draft which will be presented to the Sydney firm for acceptance. No attention need be paid to stamp duty.

The position is that the New York agents will have to draw on the London house for such an amount in £ s. d. as will, negotiated at 4.89, produce to them 10,000 dollars, i.e., for each 489 dollars they must draw for £100. This draft will amount to £2044 19s. 9d., and will be met by the London house of the Australian firm. The London agents will, in order to reimburse themselves, require to draw on the Australian firm for such an amount as, discounted at $2\frac{3}{4}$ per cent., will give them £2044 19s. 9d. To state the proposition in a familiar form: If they have to draw for £100 to produce £97 5s., for what amount must they draw to produce £2045? Working this out it is found that the amount of the draft drawn by the London agents on the Australian firm will be £2102 16s. 7d.

BANK RATES OF EXCHANGE BETWEEN AUSTRALASIA AND LONDON.—It might be noted at the outset that the rates between the different Australasian capitals and London often vary, and in order to enable practical illustrations to be given the actual rates as between Sydney and London will be supplied.

There are some points of similarity between foreign exchanges and the rates of exchange between the two centres above mentioned, but seeing that the Australian currency is the same as the English, there are also considerable differences. For instance, in dealing with the exchange rate between Paris and London any variation in the rate is denoted by a fluctuation in the value of the franc but, as between London and Australia, the sovereign has always the same value and the rate of exchange must therefore be stated apart from the intrinsic value of this coin in the two countries.

Another difference is that, in Australia, practically all dealings in bills of exchange are with the banks, whereas in foreign countries most of the dealings in trade bills are with persons known as bill brokers. When an Australian bank buys a trade bill it does not do so for the purpose of selling it again, as it is an understood thing that the banks

are not to "hawk" trade bills. In other words, if they buy such bills, they or their London agents must hold them for presentation to the drawers.

A Sydney trader desiring to remit money to London will usually purchase a bank draft on London; if he draws on London he will generally sell the draft to a bank. The rates of exchange between Sydney and London are therefore fixed by the banks, and under normal trading conditions are approximately as under:—

ORDINARY RATES.

Banks' Selling Rates.		Buying Rates.	
Telegraphic Transfers ...	17/6 p.c. premium	Demand Drafts	10/ p.c. discount
Demand Drafts .	15/ p.c. „	30 d/s „	17/6 p.c. „
30 d/s „	10/ p.c. „	60 d/s „	25/ p.c. „
60 d/s „	5/ p.c. „	90 d/s „	32/6 p.c. „
90 d/s „	par.	120 d/s „	40/ p.c. „

NOTE.—It should be noted that the buying and selling rates are quoted from the standpoint of the bank, i.e., the "buying" rate is the rate at which the bank will buy drafts from the drawers in Sydney, and the "selling" rate is the rate at which the bank will sell its own drafts on its London agent.

If a merchant in Sydney wishes to remit money to London he will buy a draft from the bank, the bank drawing upon its agents in London and selling the draft to him at a premium. If, for example, the merchant wishes to send a demand draft, he must pay £100 15s. for every £100, or if he desires to send a draft payable at 30 days' sight he can purchase the bank's draft on London for £100 10s., and so on. If he wishes the bank to cable £100 to London, i.e., to pay the amount in London on the day on which he lodges the money with the bank in Sydney, he must pay £100 17s. 6d. plus the cost of cabling.

On the other hand, an exporter in Sydney who is shipping, say, butter to London, will draw upon the consignee. He will require to obtain cash for his draft, and he can find a purchaser in one of the banks. A bank will buy a demand draft on London at 2s. 6d. per cent. discount, i.e., it will give the customer £99 17s. 6d. for a draft of £100. If the customer draws at 30 days the bank will charge 7s. 6d. discount. as it will have to wait 30 days longer to collect the money in London. During the wool season, when large shipments of wool are sent to England and the Continent, the bank rates alter very considerably. For the wool season of a normal trading period the bank rates are approximately as under:—

WOOL SEASON RATES.

Selling Rates.		Banks' Buying Rates.	
Telegraphic Transfers .. .	15/ p.c. premium	On demand .. .	2/6 p.c. discount
Demand Drafts .	7/6 p.c. „	30 d/s	7/6 p.c. „
30 d/s „	par.	60 d/s	12/6 p.c. „
60 d/s „	7/6 p.c. discount	90 d/s	20/ p.c „
90 d/s „	10/ p.c. „	120 d/s	27/6 p.c. „

Taking the buying rates, it will be seen that they have increased considerably. A customer desiring to sell a draft of £100 to the bank will receive only £99 10s., as against £99 17s. 6d. in the off season, and a similar difference will be noted in the 30 days and longer dated bills. The reason why the banks charge a higher rate of discount during the wool season is that the purchasing of such drafts causes a heavy drain on their gold resources. It is not uncommon for Sydney banks to find it necessary to bring large sums in gold from the other capitals in order to provide funds to purchase these drafts, and the expense of procuring this gold is, of course, thrown upon those who desire to obtain it.

It will also be noted that during the wool season there is a corresponding decrease in the bank selling rates. During this season a demand draft on London can be obtained at 7s. 6d. per cent. as against 15s. per cent. in the off season, and it will be noticed that a 60 days' draft on London can be purchased at 7s. 6d. per cent. discount. This means that the bank will issue a 60 days' draft on London for £100 7s. 6d. on receipt of £100. The banks lower their selling rates during the wool season so as to encourage the purchase of bank drafts on London. By doing so they are provided with gold to purchase wool drafts.

An illustration of two single transactions of a bank in one day will supply a fair idea of what makes up a considerable portion of a bank's business, and will also serve to illustrate the above explanation.

During the wool season A wishes to remit £1000 to London. He buys a demand draft on London from the bank, paying for the draft £1003 15s., the rate being 7s. 6d. per cent. premium. On the same day B, who has sent wool valued at £1000 to London, draws on his London agent on demand for this amount, and sells the draft to the bank. The bank will give him £995 for this draft, the rate being 10s. per cent. discount. The position of the bank over this transaction will then be as follows. It has sold and bought on the same day a demand draft on London for £1000. In the books of its London agent it will be debited with the draft sold and credited with the draft purchased, as the bank

will send the latter draft home for collection. So far as the bank is concerned therefore its account in the London agent's books in connection with these two transactions will be squared. It makes a profit of £3 15s. on the draft it sold, and a profit of £5 on the draft it purchased, so that it obtained in all a profit of £8 15s. The remitter has settled his debt, the exporter has obtained payment for his wool, and the bank has made £8 15s. gross profit over the transaction.

Coming now to the rates of exchange in London for drafts on Sydney, it is interesting to note that a London bank will (under ordinary peace-time conditions) sell its draft on Sydney at par. The reason for this seems to be that the balance of account between banks in England and their Australian agents or branches is greatly in favor of England, so that every draft sold by a London bank on Sydney acts as a partial settlement of this balance. It is, in effect, as good as a remittance in gold from Sydney to London, but without the cost of remittance. The London buying rates are, on the other hand, high. The pre-war rates were as follow:—

BUYING RATES.

On Demand	$1\frac{3}{4}$ p.c.
30 d/s	$2\frac{1}{4}$ p.c.
60 d/s	$2\frac{3}{4}$ p.c.
90 d/s	$3\frac{1}{4}$ p.c.

Modes of Remitting.—The question of the relative costs of settling for goods purchased in England under the various rates already shown, does not perhaps receive as much attention as it might on the part of business men, and the example supplied below will serve to indicate that it is a matter which deserves full consideration by Australian importers. The method of remitting by Telegraph Transfer, although more common now than it was some years back, is not adopted as often as it might be. This mode of settlement will often prove to be the cheapest, especially where the local merchant is working on a bank overdraft. It is always advisable to keep in view the fact that where a draft is sent to meet a payment on a due date there is always at least one month's interest lost during the time the draft is in transit. For instance, a merchant desiring to pay an amount by demand draft in London on July 31st must purchase a draft in Sydney not later than, say, the 30th June.

The following illustrations will, it is thought, make the relative cost quite clear:—

William Johnson, who works on a bank overdraft upon which he pays interest at the rate of 6 per cent. per annum, owes a London merchant the sum of £1000, due on the 30th September, and he desires to know the mode of remittance which will prove to be the cheapest to him. The total cost to him under each of the various rates is shown hereunder:—

ORDINARY RATES.

Remittances by Demand Draft—

Amount of draft purchased on the 31st August ..	£1,000	0	0
Exchange at 15/ per cent.	7	10	0
One month's interest on, say, £1008, at 6 p.c.	5	0	9
Stamp	0	0	2
Total Cost	£1,012	10	11

Draft at 30 d/s—

Amount of draft purchased on the 31st July	£1,000	0	0
Stamp (say)	1	0	0
Exchange at 5/ per cent.	5	0	0
Interest for two months on £1006	10	1	2
Total Cost	£1,016	1	2

Draft at 60 d/s—

Amount of draft purchased on the 30th June	£1,000	0	0
Stamp Duty (say)	1	0	0
Exchange at 5/ per cent.	2	10	0
Interest on £1003 at 6 p.c. for three months	15	1	0
Total Cost	£1,018	11	0

Telegraphic Transfer—

Amount of cable transfer on the 30th September .. .	£1,000	0	0
Exchange at 17/6 per cent.	8	15	0
Cost of cabling (say)	0	15	0
Total Cost	£1,009	10	0

WOOL SEASON RATES.

Remittance by Demand Draft—

Amount of draft purchased	£1,000	0	0
Stamp	0	0	2
Exchange at 7/6 per cent.	3	15	0
Interest on £1004 at 6 per cent., for one month	5	0	5
Total Cost	£1,008	15	7

Draft at 30 d/s—

Amount of draft purchased	£1,000	0	0
Exchange at par			
Stamp (say)	1	0	0
Interest on £1001 at 6 per cent. for two months	10	0	2
Total Cost	£1,011	0	2

Draft at 60 d/s—

	£	s.	d.
Amount of draft purchased	£1,000	0	0
Less exchange, at 7/6 per cent. discount	3	15	0
	£996	5	0
Plus Stamp (say)	1	0	0
Interest on £997, at 6 per cent. for three months	14	19	1
	£1,012	4	1

Telegraphic Transfer—

	£	s.	d.
Amount of Cable Remittance	£1,000	0	0
Exchange, at 15/ per cent. premium	7	10	0
Cost of Cabling (say)	0	15	0
	£1008	5	0

NOTE.—At time of writing there is no Stamp Duty in Victoria on Bills such as the above, and the results would, in that State, be varied to the extent of the duty shown.

It will be seen from the above that both at Ordinary and Wool Season Rates the cheapest mode of settling a debt due in London, for an Australian merchant working on an overdraft upon which he pays at least 6 per cent., is by Telegraphic Transfer. It is possible of course that the merchant may be able to make better use of the money here and the whole of the circumstances in each particular case require looking into before a proper decision as to the most profitable course can be arrived at. The above examples will show, in any case, that the matter is well worth consideration.

CHAPTER XV.

CONSIGNMENT ACCOUNTS—JOINT ACCOUNTS—ACCOUNT SALES—ACCOUNT CURRENT—EQUATION OF PAYMENTS—GOODS ON SALE OR RETURN.

A Consignment is a parcel of goods sent by a merchant to his agent, usually in some other town or country, for sale on the merchant's behalf. The merchant despatching the goods is known as the Consignor and the agent who receives the goods as the Consignee. The ownership of the goods remains with the consignor, the consignee selling the goods on his behalf and accounting to him for the proceeds less the authorised deductions for expenses and commission. It will be seen, therefore, that this class of transaction requires somewhat different treatment in the books from an ordinary sale or purchase, seeing that the consignor cannot treat the goods as sold until he receives advice from the consignee that he has disposed of them, and on the other hand the consignee cannot treat the transaction as a purchase in his books, seeing that the ownership remains with the consignor.

It is proposed to deal with the entries and accounts necessary to record consignment transactions under two sets of circumstances. Firstly, the treatment in the books of the consignor or of consignee who despatches or receives the goods on consignment occasionally; and, secondly, with the treatment of such transactions in the books of those consignors and consignees who make a regular practice of dealing with consignments.

ENTRIES IN ORDINARY TRADER'S BOOKS.—The entries in the books of an ordinary trader in connection with consignments will, of course, depend upon whether the trader is acting as consignor or as consignee. It is proposed to describe first of all the procedure in the books of the former.

Consignor's Entries.—When goods are despatched on consignment, the consignor will require to know the result

of the consignment, and in order to enable this information to be ascertained he must make the entries in his books in such a way that this result can be arrived at. It might be mentioned that consignment entries are usually the cause of a good deal of trouble and confusion in the books of the ordinary trader, although there is nothing inherently difficult in connection with such accounts, provided a proper system of recording the transactions is adopted.

The confusion caused by transactions of this nature can mostly be put down to an attempt on the part of the bookkeeper to achieve the necessary results without taking proper trouble to ensure that the method he adopts is an adequate one. It should be understood at the commencement that a proper record of such transactions entails a little more work than is experienced with the ordinary transactions in a trader's books, seeing that the books are specially designed to record these everyday transactions with a minimum of work. Where consignments are apart from the ordinary course of business it is clear that the entries relating to them will require special treatment, keeping in view the fact that the trader will desire to know the net result of each separate consignment.

In some cases it is the custom to make no entries in the financial books in connection with the despatch of a consignment until advice is received from the agent that the goods have been sold, accompanied by a statement showing the net proceeds. The amount of the net proceeds is then put through the Day Book and treated as an ordinary sale, being posted to the debit of the agent's account. It need hardly be pointed out that this is a totally incorrect method of treatment. In the first place it is distinctly inadvisable that any goods should be despatched without some record being made in the financial books; and, secondly, the fact that goods disposed of in this way will not realise the usual percentage of profit will introduce a disturbing element into the sales and will render useless any comparison of the gross profits from year to year.

When sending goods out on consignment it is necessary to open a Consignment account in the Private Ledger. This account is a miniature Profit and Loss account which is designed to show the profit or loss on the consignment. A Journal entry will be passed debiting Consignment account with the cost price of the goods, a pro-forma invoice being sent to the agent for this amount. The credit entry will be made in Goods Sent on Consignment account (not Sales account), the latter account being transferred to the credit of Trading account at the close of the financial period. Any expenses incurred by the consignor in despatching the goods

will be debited to Consignment account and when an Account Sales is received from the agent showing the net proceeds from the sale of the goods, a Journal entry will be passed debiting the agent and crediting Consignment account. This account will then show the net profit or loss on the consignment and the balance will be transferred to the credit or debit of Profit and Loss account on balance day.

It will be noted that no entry is made in the personal account of the agent until an Account Sales is received from him showing the net amount for which he is accountable to the consignor. In some cases, however, an arrangement is made for the merchant to issue a bill of exchange drawn on the agent for a portion of the value of the consignment in advance. Where this is done the agent's account will be credited with the amount of the draft and, when his account is debited with the net proceeds, the difference between the debit and credit items will show the balance due by him to the consignor.

Where several consignments are sent out during any financial period it is usual to indicate at the heading of the Consignment account, in the manner shown in the illustration supplied hereunder, the particular agent to whom goods have been despatched. Reference has been made above to an Account Sales. This, as its name implies, is a statement of sales rendered by the consignee to the consignor, setting out the amount realised on sale of the goods and showing as deductions therefrom the expenses incurred in selling and the agent's agreed commission. This Account Sales is frequently accompanied by an Account Current, more especially where there is a provision that interest is to be charged and allowed upon the amounts received and paid by the consignee on behalf of the consignor. An Account Current is a statement setting out the transactions between two persons as they occur from day to day and showing, where agreed upon, interest calculated on the various items comprised therein.

A careful study of the following example should make the procedure in the consignor's books clear:—

On 10th January, Messrs. John Paxton & Co., Melbourne, forwarded for sale on consignment per S.S. "Grantala" to Mr. William Addison, of Sydney, 600 bags potatoes, 15 bags to the ton, pro-forma invoice at £3 10s. per ton, £140. They pay freight £22 10s., and insurance 14s. William Addison on 11th January accepts a draft of £100 at 60 days drawn on him by the consignors. He pays the following charges:—

Jan. 14	Inspection Fee at 3d. per ton	0	15	0
15	Wharfage at 2/6 per ton	5	0	0
20	Loading	1	0	0
25	Weighing	0	12	0

And makes sales as follows:—

Jan. 20	150 bags	at	£5	0	0	per ton.
24	100 ,,	at	5	0	0	,,
Feb. 10	150 ,,	at	5	10	0	,,
25	200 ,,	at	5	15	0	,,

He receives payment for all the above except 150 bags sold on 10th February, for which he receives a 30 days' P.N. Show entries in books of the consignors, Messrs. John Paxton & Co. Specimen Account Sales and Account Current received from William Addison are shown over page.

ENTRIES IN JOHN PAXTON & CO.'s (CONSIGNOR'S) BOOKS.

(In Private Ledger.)

CONSIGNMENT ACCOUNT (WM. ADDISON.)

19 .—		£	s.	d.	19 .—		£	s.	d.
Jan. 10	—To Goods on Const. A/c	£140	0	0	Mar. 2	—By Wm. Addison Net proceeds	£184	4	8
	,, Cash Freight	22	10	0					
	,, ,, Insurance	0	14	0					
Mar. 2	—,, Net Profit .	21	0	8					
		£184	4	8			£184	4	8

(In Sales Ledger.)

WILLIAM ADDISON.

19 .—		£	s.	d.	19 .—		£	s.	d.
Mar. 2	—To Net Proceeds per Account Sales	£184	4	8	Jan. 14	—By P.N. due 15th March	£100	0	0
	,, Interest ...	0	10	6		,, Cheque .. .	84	15	2
		£184	15	2			£184	15	2

Account Sales of 600 Bags of Potatoes
Ex S.S. "Grantala" , sold on Account of John Paxton & Co.
Melbourne ...by WILLIAM ADDISON, Exchange Buildings, Sydney.

19									
		Pro forma Invoice T C Q Lb							
Jan	10	600 Bags (15 to ton) 40 . .	70/-	140					
		Sales as under:—							
"	20	150 bags 10 . . . @	100/-	50	.	.			
"	24	100 " 6. 13. 1. 9 -	100/-	33	6	8			
Feb	10	150 " 10 . . -	110/-	55	.	.			
	25	200 - 13 6. 2. 18 -	95/-	63	6	7	201	13	3
		Gross Proceeds					201	13	3
		Less Charges							
Jan	14	Inspection Fee @ 3d per 10			15				
	15	Wharfage @ 2/6		5	.	.			
	20	Loading		1	.	.			
	24	Weighing			12	.			
Feb	28	Commission @ 5%		10	1	7	17	8	7
		Net Proceeds					£184	4	8

Sydney 28th February 19

WILLIAM ADDISON
Per E.J.M.

E. & O. E

Messrs John Paxton & Co. of King St. Melbourne in Account Current with

WILLIAM ADDISON, Exchange Buildings, Sydney. 28th February 19

INTEREST @ 5 %

Dr.

19			Days.	Interest.	Amount.
Jan	14	To Draft due 15th Mch	15	(4 1)	100 . .
		" Inspection Fees	45	1	. 15 .
	15	" Wharfage	44	8	5 . .
	20	" Loading	39	1	1 . .
	24	" Weighing	35	1	12 .
Feb	28	" Commission			10 1 7
		" Rebate of Interest (per contra)		1 10	
		" Balance of Interest		10 6	
				13 3	
		" Balance			84 15 2
					202 3 9
Feb	28	To Cheque			84 15 2

Cr.

19			Days.	Interest.	Amount.
Jan	20	By Sales	39	5 4	50
	24	" "	35	3 3	33 6 8
Feb	10	" " (P/N due 12th Mch)	12	(1 10)	55 .
	25	" "	3	7	63 6 7
	28	" Rebate of Interest (per contra)		4 1	
		" Balance of Interest			10 6
				13 3	
					202 3 9
Feb	28	By Balance			84 15 2

Consignee's Entries.—In the books of the agent receiving the goods on consignment a Consignment account should be opened in the Private Ledger in order to enable the net result of the consignment so far as the agent is concerned to be ascertained. Upon the receipt of the goods a Journal entry should be passed debiting the Consignment account and crediting the Personal account of the consignor with the pro forma invoice price of the goods.

Care should be taken to distinguish the account of the consignor from the accounts of ordinary creditors in the agent's Bought Ledger, and this is usually done by writing after the name of the consignor's account in that ledger the words "Consignment Suspense Account," in order to ensure that no remittance will be made for the balance showing in this account until the goods are finally disposed of. Of course, if the agent receives numerous consignments, he will have a separate Consignor Ledger, but under the circumstances now being considered a Personal account will be opened for the consignor in the ordinary Bought Ledger and distinguished in the manner already indicated.

Any expenses paid by the agent in connection with the consignment will be debited to the Consignment account and any amounts received on sale of the goods will be credited to that account. Where goods are sold for cash the items will be posted direct from the Cash Book to the credit of the Consignment account and care should be taken to ensure that any moneys received in this way are not included in the agent's own cash sales. If the Consignment goods are sold on credit it will be of course incorrect to charge the amount to the purchaser through the agent's Day Book, seeing that this does not form part of the agent's own sales. For sales of this nature a Journal entry should be passed debiting the Personal account of the purchaser and crediting Consignment account.

When all the goods are disposed of the agent will pass a Journal entry debiting Consignment account and crediting his Commission account with the agreed rate of commission, and the balance of the former account will then represent the net result of the consignment. This balance will be transferred to the debit or credit of the Personal account of the consignor, which account will then show the amount due by the consignee to his principal. Any draft drawn in advance by the consignor on the agent will of course be debited to the consignor's Personal account, not to the Consignment account, and this amount will tend to reduce the amount to be remitted to close the consignor's account.

The agent will then prepare an Account Sales and, where necessary, an Account Current and will forward these documents to the consignor. For the purpose of giving an illustration of the entries in the books of the consignee the example already supplied will be continued and the entries in connection with that consignment shown from the standpoint of the consignee.

ENTRIES IN W. ADDISON'S (CONSIGNEE'S) BOOKS.

(In Private Ledger.)

CONSIGNMENT ACCOUNT (J. PAXTON & CO.).

19 .—		£	s.	d.	19 .—		£	s.	d.
Jan. 14	—To J. Paxton & Co.	£140	0	0	Jan. 20	—By Sales	£50	0	0
	„ Cash Inspection Fees	0	15	0	Jan. 24	— „ Sales	33	6	8
15	„ Cash Wharfage	5	0	0	Feb. 10	— „ Sales due 12th March	55	0	0
20—	„ Cash Loading	1	0	0	Feb. 25	— „ Sales	63	6	7
24	„ Cash Weighing	0	12	0					
Feb. 28	„ Commission	10	1	7					
	„ J. Paxton & Co.	44	4	8					
		£201	13	3			£201	13	3

(In Bought Ledger.)

JOHN PAXTON & CO. CONSIGNMENT SUSPENSE ACCOUNT.

19 .—		£	s.	d.	19 .—		£	s.	d.
Jan. 14	—To P.N. due 15th March	£100	0	0	Jan. 24	—By Consignment Account ..	£140	0	0
Feb. 28	— „ Cash	84	15	2	Feb. 28	— „ Interest ..	0	10	6
					Feb. 28	— „ Consignment Account ..	44	4	8
		£184	15	2			£184	15	2

Adjustments on Balance Day.—If the consignor has goods out on consignment at the close of a financial period he will require to know the position of the consignment in order to enable him to show his true profits for that period.

Under such circumstances the agent should be required to prepare and forward to the consignor an Account Sales showing the position up to a date as near to balance day as possible. This statement will show the sales to date and expenses incurred, including the agent's commission, and should also set out at the foot the pro-forma invoice value or the quantities of the goods which he still holds. It is not necessary for the agent to make any entries in his books in connection with this statement, but in the consignor's books the following entries must be passed if it is desired to

make the Consignment account show the profit or loss to date.

(a) Debit the Consignee and credit Consignment account with the net proceeds as shown by the Account Sales.

(b) Ascertain the cost price to date of the goods which the agent still has on hand, and pass a Journal entry debiting "Goods out on Consignment account," and crediting Consignment account. The former account will appear in the books as an asset over balance day, and the latter account will then show the net profit or loss to date, the balance being transferred to Profit and Loss account.

Some calculation will be required to enable the "cost price to date" of the goods held by the agent to be ascertained. To the original pro-forma invoice price of the goods must be added a proportion of the expenses paid by the consignor in despatching the goods, together with a proportion of the expenses paid by the agent to date. In arriving at this latter amount care should be taken to eliminate any expenses shown on the Account Sales rendered by the agent which are applicable only to those goods which have been sold. Such expenses as freight on goods sold, agent's commission, &c., will not increase the cost price of the goods which he now has on hand.

On the day following balance day a reversing entry must be passed debiting Consignment account and crediting Goods out on Consignment account with the cost price to date of the goods in the hands of the agent.

Joint Accounts.—It sometimes happens that two or more persons join together for the purpose of entering into a venture. These ventures are often somewhat similar to a consignment, although generally speaking they are of a more speculative nature. An arrangement is made between the parties as to the amounts to be contributed by them respectively, on the understanding that the profit or loss on the venture is to be shared.

The accounts necessary under such circumstances are as follow. A separate Capital account is opened for each party, to which is credited the amount contributed by him towards the venture. A Joint Adventure account or Joint Speculation account will then be opened, and this account will be debited with the cost of any goods, &c., purchased during the course of the trading and also with all expenses

incurred. Any amounts received on realisation of the goods, &c., will be credited to this account and the balance, which will represent the net profit or loss on the adventure, will then be transferred to the Capital accounts of the parties in the agreed proportions. The balance of cash on hand should be just sufficient to repay to the parties the amount standing at the credit of their Capital accounts after the profit or loss has been adjusted.

Where an arrangement is made that the parties are to receive interest on the capital contributed by them the amount of interest will be calculated before the Joint Adventure account is closed off, being charged against that account and credited to the respective Capital accounts.

ENTRIES WHERE CONSIGNMENTS ARE FREQUENT.—As already mentioned, where the despatch of consignments is of frequent occurrence, special books should be designed in order to enable a proper record of these transactions to be made with a minimum of trouble. Where the despatch or receipt of consignments is apart from the ordinary course of business the additional work involved in recording the entries in the manner previously indicated is not serious, and no alteration in the ordinary style of book-keeping is found necessary. This system would, however, prove far too unwieldy where consignment transactions are numerous and it is thought that the system outlined below which is in use in a number of businesses, will be found satisfactory under such circumstances.

Consignor's Books.—The consignor will require to keep a book somewhat in the form of an ordinary Day Book, called a Consignment Day Book, in which will be entered in chronological order the names of the consignees and particulars of the goods despatched to them. This book usually contains more particulars with regard to the goods than would be inserted in an ordinary Day Book, the quantities or weights, numbers of cases and marks on the cases, &c., being recorded fully for future reference. Another difference is that the goods will be put through this book at cost price instead of ordinary selling prices.

The items recorded in the Consignment Day Book will be posted to the debit of accounts in the Consignment Ledger, a separate account being opened in that ledger for each consignment despatched and the heading of the accounts indicating the names of the consignees. This ledger will be run on the self-balancing principle already described and an adjustment account will be kept therefor in the Private

Ledger. At the end of the month, the total of the Consignment Day Book will be posted to the debit of the Consignment Ledger Adjustment account and to the credit of Goods sent on Consignment account.

The Personal accounts of the consignees will be kept in a Debtors' Ledger. As the Account Sales are received from the consignees these will be entered in an Account Sales Book which will show the names of the consignees and brief particulars of the Account Sales, the amounts of the net proceeds being posted from there to the debit of the consignees' accounts in the Debtors' Ledger. It might be mentioned that provision should be made in the Account Sales Book for two folio columns, as each amount must be posted twice; in the first place, as already indicated, to the debit of the proper consignee's account in the Debtors' Ledger; and, secondly, to the credit of the particular Consignment account in the Consignment Ledger. At the end of the month the total of this book will be posted to the debit of Sundry Debtors account and to the credit of Consignment Ledger Adjustment account.

At regular intervals, usually at the end of each month, the Consignment Ledger should be gone through and a Journal entry passed transferring the balances of those accounts in respect of which a final Account Sales has been received to the credit or debit of Profits and Losses on Consignment account, at the same time making a corresponding debit entry in the Consignment Ledger Adjustment account. The balance of this last mentioned account should then agree with the total of the balances in the Consignment Ledger.

With regard to remittances received from consignees these will be treated on exactly the same lines as payments received from debtors. The amounts received will be posted from the Cash Book to the credit of the Personal accounts of the consignees in the Debtors' Ledger and the total of such remittances will be credited at the end of each month to Sundry Debtors account.

Consignee's Books.—A system very similar to that described above, except that the entries will be in a reversed form, will be suitable for a consignee who receives consignments from numerous principals. The amounts and details of pro-forma invoices received will be recorded in the first place in the Consignments Inward Book. This book should be provided with two ledger folio columns, as each item entered therein must be posted twice, firstly to the debit of a Consignment account in the Consignment Ledger and, secondly, to the credit of the Personal account of the prin-

cipal in the Consignors' Ledger. At the end of the month the total of this book will be posted to the debit of Consignments Received account and to the credit of the Consignors' Ledger Adjustment account, both of which accounts will appear in the Private Ledger.

A separate column should be set aside on the credit side of the Cash Book to record expenses paid in connection with the various consignments. These items of expenses should be posted from the Cash Book to the debit of the respective Consignment accounts in the Consignment Ledger and, at the end of the month, the total of this column in the Cash Book will be posted to the debit of Consignments Received account.

In connection with the sale of consignment goods by the agent a Consignment Day Book will be required. If the number of consignments on hand at any one time is not likely to exceed from fifteen to twenty, a tabular Day Book might be used, a separate column being set aside to record the amounts of the sales in connection with each consignment, the items in this book being posted to the debit of the Personal accounts of the purchasers in the Debtors' Ledger. At the end of each month the totals of the various columns will be posted to the credit of the respective Consignment accounts in the Consignment Ledger and the grand total of the book debited to Sundry Debtors account and credited to Consignments Received account.

As each parcel of consignment goods is cleared off, an entry should be passed through the Commission Book and posted to the debit of the account in the Consignment Ledger, the total of the Commission Book being posted at the end of the month to the debit of Consignments Received account and to the credit of Commission account. At the same time an entry should be passed through the Journal transferring the balance of the particular consignment account to the credit of the consignor's Personal account in the Consignors' Ledger, this entry being also posted in the Private Ledger to debit of Consignments Received account and to the credit of Consignors' Ledger Adjustment account. The Account Sales and Account Current must next be prepared, and a reference made in the above Journal entry to the copy of these statements retained by the agent.

A separate column should be provided on the credit side of the Cash Book to show remittances to the consignors. The individual items entered therein will of course be posted to the debit of the Personal accounts in the Consignors' Ledger and, at the end of the month, the total of this column in the Cash Book should be posted to the debit of Con-

signors' Ledger Adjustment account. The balance of the account last mentioned should agree with the total of the balances contained in the Consignors' Ledger and the balance of the Consignments Received account should agree with the total of the balances in the Consignment Ledger.

It is thought that anyone understanding the principles of self-balancing Ledgers, described in Chapter II., should have no difficulty in following the system set out above.

ACCOUNT SALES.—A definition of Account Sales has already been supplied and the illustration given will make the nature of the items to be included in such a statement and also the method of preparation perfectly clear.

ACCOUNT CURRENT.—A definition and illustration of an Account Current has also been supplied. With reference to the items shown on the credit side of the statement these will be obtained from the credit side of the Consignment account in the books of the consignee. The items on the debit side will be obtained from the amounts shown on the debit side of this Consignment account, but reference should also be made to the Personal account of the consignor in order to see if any draft has been drawn against the shipment. In the case illustrated it will be seen that a draft for £100 was drawn, and this must be shown on the debit side of the Account Current. Stated briefly, the Account Current shows on the credit side any amounts the consignee receives on behalf of the consignor, and on the debit side any payments made by him on the consignor's account.

With regard to interest, this is calculated on each item for the number of days between the date when the amount was received or paid and the date of settlement. Taking, for instance, the first item on the credit side, it will be seen that this amount was received on the 20th January, the date of settlement being the 28th February. The consignee therefore, had the use of this amount for thirty-nine days, and interest is calculated on £50 for that period. On the debit side the consignee charges interest on the various amounts paid by him for the number of days in between the dates of payment and the date of settlement. The difference between the total of the debit and credit columns will represent the amount of interest due by or to the consignee.

In the illustration supplied, an amount of 10/6 is due to the consignor for interest, as this amount represents the balance of the two interest columns. The consignee will therefore pass a Journal entry in his books debiting Interest account and crediting the consignor's Personal account.

showing the amount also on the credit side of the Account Current.

The items of interest shown in brackets on the two sides may perhaps require explanation. Taking first of all the amount of 1/10 on the credit side, it will be seen on reference to the "particulars' column that these goods were paid for by a P.N. which is not due until the 12th March. Although the consignee will not receive payment in cash of this amount of £55 until the 12th March, he is treating the amount as a credit to the amount of the consignor on the 28th February, i.e., he is in reality paying the consignor the amount twelve days before he will receive it himself. He is therefore entitled to receive twelve days' interest on this amount and this rebate is shown in the debit Interest column in the manner indicated. It is also shown in the credit Interest column in red ink, in order to indicate the item upon which it is charged, but this amount is not included in the total of such column.

Taking now the item 4/1 in the interest column on the debit side a somewhat similar position arises. The consignee does not have to pay this £100 in cash until the 15th March, but he is treating it as a debit to the consignor's account and as a deduction from the amount of the remittance as on the 28th February, and he must therefore allow the consignor fifteen days' interest. This interest is included on the credit side, and is stated in red ink on the debit side in order to show on which amount it is calculated.

Upon receipt of the Account Sales and Account Current from the consignee the consignor will pass an entry for interest corresponding with that shown in the Account Current. In the present case he will debit the Personal account of the consignee with the interest and credit Interest account, as shown in the specimen accounts.

EQUATION OF PAYMENTS.—It is very often useful to be able to find the average date upon which the total of a number of varying amounts due on different days would be payable. This method of calculation is often utilised in the case of shipments of goods which are made on varying dates, where it is desired to draw one bill to cover the total amount of the shipments.

The method of arriving at the average due date is very simple.

(a) Fix upon a certain date, preferably the first date upon which an amount is due.

(b) Calculate the number of days between that date and the other dates upon which amounts are due.

(c) Multiply each amount by the number of days between the date when it is due and the date fixed upon.

(d) Find the total of the amounts due.

(e) Find the total of the products.

(f) Divide the total products by the total pounds and the result will give the number of days after the date fixed upon, upon which the whole amount will be due.

The example supplied below will enable the above procedure to be followed without difficulty.

A. & Co. in London ship goods to B. & Co., in Melbourne, payments being due as under:—

March	15	..	£160
	31	..	218
April	7	..	346
	22	..	133

It is desired by the home firm to draw a bill at three months to cover the total of the shipments. Show the date from which this bill must be drawn.

March	15	..	£160	0	—
	31	..	218	x 16	£3,488
April	7	..	346	x 23	7,958
	22	..	133	x 38	5,054
			£857		£16,500

16,500 divided by 857 equals $19\frac{217}{857}$, say, 20 days from the 15th March, giving the average date at the 4th April. The bill would therefore be drawn for £857 under date of 4th April, and would be due on the 7th July.

GOODS ON SALE OR RETURN.—It is the custom in a number of retail houses to send goods out to customers on approval, i.e., the goods are sent to the customer for inspection in order to enable him to ascertain whether they are suitable before he actually purchases them. He is not actually chargeable with these goods unless he notifies the supplier either expressly or impliedly that he intends to keep them or retains them beyond a reasonable time.

A careful record should be kept of all such goods, and a Sale or Return Book should be kept in which should be entered all goods sent out which are not at the time chargeable against the customer. Provision should be made therein to show that the goods have been returned, if such is the case, and also to show, in the event of the goods being retained by the customer, that the transfer has been made into the ordinary Day Book.

The Sale or Return Book should be referred to daily in order to ensure that no transactions of this nature are overlooked. It is advisable where possible to fix a period within which the goods must be returned by the customer if he does not desire to keep them, and under these circumstances it is a simple matter to ensure that no goods are retained by customers without being charged up against their accounts in the Customers Ledger. The following ruling will indicate the style of book required.

Where there is a number of departments in the business it is advisable that a separate Sale or Return Book should be kept for each department, and that this book should be kept in the department itself and not in the office. Where the goods are retained by the customer the department will prepare a Sale Note in the usual way for the office, and this will ensure that the transactions will be put through the office books and charged against the customer's account.

SALE OR RETURN BOOK.

Date Supplied	Date to be Returned	Name of Customer	Description of Goods	Amount	Date Returned	Entd in Day Book: Date	Ent'd in Day Book: Fol.

CHAPTER XVI.

TABULAR BOOKKEEPING.

BOOKS OF FIRST RECORD—TABULAR LEDGERS.

Although the principles of Double Entry Bookkeeping remain the same throughout, it is clear that, in different classes of business, some variations in procedure will be found necessary if the books are to supply the required amount of information. The books of a business which contains a number of different departments must necessarily be more elaborate than those of a small shop, and the system to be adopted in each case must depend upon the requirements of the particular business.

A business running a number of different departments will in most cases require to have the result of each department shown separately and it will of course be necessary for the totals of the various transactions relating to each department to be ascertained at the end of each month. This may be done by dissecting the entries shown in the books every month, but a better plan is to tabulate the books or, in other words, to provide additional columns therein in order to enable this dissection to be performed as the work proceeds. This will obviate throwing the whole of the additional work on to the end of the month.

In certain businesses the Ledger itself may be kept in tabular form and, where such a form of Ledger is suitable it will result in a considerable saving of time and labor on the part of the bookkeepers. It is proposed to deal in the first place with the tabulation of the various books of first record.

Day Book.—In a business with a number of departments the proprietors will generally require to know the result of each department and, where such is the case, it will, of course, be necessary to arrange the Day Book so that the total sales for each department can be ascertained without difficulty. In a large business where the departments are numerous and the office staff fairly large it is

TABULATED DAY BOOK.

Date	Nº of Invoice	Name	Particulars	Led. Folio	Invoice Total	Oils	Varnishes	Brushes	Wallpaper	Glass	Sundries	
											Amount	Particulars

advisable to have a separate Sales Book for each department, as more than one clerk will be employed upon writing up and posting the sales. In smaller businesses where only one Day Book is kept the sales relating to each department are kept distinct by providing separate columns in the Day Book in the manner shown in the accompanying illustration. A tabulated Day Book will also prove useful where there are several sales ledgers kept on the self-balancing principle.

At the end of the month the total of the first column will be posted to the debit of Sundry Debtors account and the total of the remaining columns to the credit of the respective Sales accounts of the various departments.

Invoice Book.—The purchases will require to be dissected in the same way. The ruling will be similar to that shown herewith and a separate Purchases account will be kept for each department. A dissection of the sales and purchases under the headings of the various departments will enable the gross profit for each department to be ascertained without difficulty, as the stocks can easily be kept apart.

Returns Books.—The Returns Inward and Outward Books are sometimes tabulated in the same manner as the Sales and Purchases Books in order to enable the monthly totals of the returns for each department to be ascertained. This will, however, only be necessary where returns are numerous, as, if such transactions are not frequent, the separate totals can be arrived at by dissection at the end of each month.

Cash Book.—This book provides greater scope for tabulation than any of the other books of first entry. By the simple method of providing additional money columns in the Cash Book a considerable amount of time can be saved in posting to the Ledger and the accompanying illustration shows how the Cash Book of an ordinary trading concern might be tabulated with this object in view.

Referring to the debit side, the Sales Ledger column will supply the monthly total to be posted to Sundry Debtors account and the Cash Sales column the monthly total of such sales to be posted to the credit of Sales account. Where transactions in bills receivable are numerous it is advisable to introduce an additional column on this side, so that the monthly total of bills matured or discounted during the month can be readily ascertained, and this will save the necessity of posting each bill separately from the Cash Book to Bills Receivable account.

CASH BOOK (Debit Side).

Date 19		Particulars	Rec. No.	Fol.	Discount	Salesledger A/c	Cash Sales	Sundries	Bank
		Forward			3 15 6	292 16 10	62 17 2		379 11 8
Jan	30	To Simpson Arthur	Sutte	129		5 10			
		" Johnson Charles	7	84	9	1 9 3			
		" Fraser Wm	8	63	7 10	15 7 2		22 6 5	
		" Cash Sales	✓	✓			14 2 10	14 2 10	36 9 3
	31	" Bills Rec No 24 due	✓	PL15					24 15 6
		" Collins John	9	24		15 6			
		" Jamieson Mary	350	81		7 8			
		" Smith James	1	134	4 2	8 1 10		9 5	
		" Cash Sales					13 14	13 14	22 19
					4 8 3	324 8 3	90 14		463 15 5
Jan	31	To Balance							59 4 6

CASH BOOK (Credit Side).

Date 19		Particulars	Cheq No	Fol	Discount	Bought Ledger A/cs	Bills Payable	Wages	Advertising	Freight and Cartage	Lighting and Cleaning	Sundries	Bank
		Forward			7 8 11	245 14 1	26 10	11 4 6	10 5 6	2 1 8	11 9		295 18 4
Jan	24	By Love & Co J.R	87	36	15 4	24 14 8							24 14 8
		" N.S.W. Railways	88	✓						2 18 9			2 18 9
	26	" W Jones	89	✓						1 2 6			1 2 6
		" Bills Payable No 230 due	"	✓			24 9 10						24 9 10
		" Gas Company	90	✓							2 5 4		2 5 4
	28	" "Express" Newspaper	91	✓					1 5				1 5
		Petty Cash	92	47					1 15		1 4 6	12 6 19 6	4 11 6
		" Wages Smith						3					
		Brown						2 10					
		Jones	93	✓				1 15					7 5
	31	" Drawings	94	16								10 .	10
		" Balance											89 4 6
					8 4 3	270 8 9	50 10 8	18 9 6	13 5 6	6 2 11	4 1 7	11 12 .	463 15 5

On the credit side of the Cash Book it will be noticed that a number of additional columns has been introduced in order to enable the monthly totals of the various expenses to be ascertained without difficulty. In this way a dissection of the various expenses is made as the Cash Book is being entered during the month, and these expenses can then be posted to the Ledger in totals. It is not practicable to provide a separate column for each expense which is likely to arise, but a Sundries column is inserted in order to contain items which cannot properly be included in any of the special columns and the items of this column must be posted separately to the respective accounts in the Private Ledger.

In some businesses the Cash Book rulings are more elaborate than those supplied here. An illustration of a Cash Book such as would be used by an Insurance Company will be found in Chapter XXI. dealing with Insurance Companies' Accounts.

Petty Cash Book.—The credit side of the Petty Cash Book might also be tabulated with advantage, provision being made for each class of expense which occurs with sufficient frequently to warrant a special column being utilised. These columns should be shown to the right of the "Payments" column and the total of the dissection columns should agree with the total payments.

Tabular Journal.—A specimen of a Tabular Journal has already been supplied in Chapter II. when dealing with Self-balancing Ledgers, this form of journal enabling the monthly totals of entries affecting personal accounts, for posting to

INDENT

DEBITS

Date		No. of Invoice.	Indent No.	Particulars	Fol.	Merchandise	Commission	Freight and Charges	Insurance	Interest and Discount
19..										
				Forward		8698 14 10	434 18 9	629 14 3		217 9
May	6	286	249	English Export Co. L'pool	B/L 24	426 18 6	21 6 9	26 19 8		12 16 7
		1098		Johnston & Jackson Sydney	S/L 86					
ex		9		Sydney Import Co Ltd	124					
"MOOLTAN"		1100		Archer & Co Ltd Sydney	18					
		1		Sparks & Son Ltd	118					
		2		N S W Hardware Co	94					
		3		Williams & Jones	156					

the respective adjustment accounts, to be ascertained without difficulty.

A specimen of a Tabular Journal which could be utilised to advantage by an Indent Agent is supplied herewith, this book containing a record of the amounts to be credited to the consignors and the charges to be made against the local merchants for whom the goods are indented. Each page of this book can be balanced across as the total of the items in the credit columns should always agree with the total of those in the debit columns. When an invoice for goods indented is received from the consignors the amounts charged on the invoice will be entered in the debit money columns, the total of the invoice being carried to the "Personal Credits" column on the credit side and from there posted to the credit of the Consignors' account in the Ledger. The price of the goods and the charges on this invoice are then dissected and entered against the various local merchants for whom the goods have been indented.

The details of the charges against each merchant are shown in the columns on the credit side and the totals of such charges are included in the "Personal Debits" column, being posted from there to the debit of the respective merchants' accounts in the Personal Ledger. After each shipment is dealt with the debit and credit "Merchandise" columns should be squared off, but the totals of the other charges columns should be carried forward until the end of the month or quarter, the items on the debit side being posted to the debit of the respective nominal accounts, those on the credit side being posted to the credit of such accounts.

JOURNAL.

CREDITS.

	Personal Debits			Merchandise			Commission.			Freight and Charges			Insurance			Landing Charges & Duty			Interest			Personal Credits			
	12307		5	8698	14	10	651	18	6	858	19	4	44	9	10	1816	19	3	236	18	8	9980	16	10	
																						488	1	6	
	174	16	8	126	14	3	9	10	1	8	18	6		12	6	26	19	10	3	1	6				
	117	15	6	84	10	9	6	6	9	6	9	6		8	6	17	1	6	2	18	6				
	73	10	7	48	15	3	7	13	2	4	18	9		5		10	2	9	1	15	8				
	131	11	·	94	10	9	7	1	9	7	12	6		9	6	18	16	6	3		·				
	57	15	3	40	9		3		9	4	10			4		8	10	·	1	4	6				
	46	13	11	31	18	6	4	12	6	2	4	9		3	3	6	18	6		16	5				

Such a ruling will enable full details of the arrival and despatch of each shipment to be kept within the covers of one book, and will also enable the profit made by the agent under the respective headings to be arrived at with a minimum of trouble.

Tabular Ledger.—A "Tabular" Ledger should not be confused with a "tabulated" ledger. The latter term is used to describe one in which the ordinary debit and credit columns of certain accounts are divided under various headings for the purpose of dissecting the items posted to such accounts. A "Tabular" Ledger is a special form of book which can only be used suitably in certain classes of business.

It can best be described as a combination of Day Book and Ledger, or, in other words, as a Day Book which, by the provision of additional columns, is capable of being used as a Personal Ledger. Such a book can only be used to advantage where there is a considerable number of personal accounts and the entries to be made in such accounts are few and regular, or where the personal accounts are few but the charges are to be made frequently and regularly. This being the case, it will be seen that a Tabular Ledger could not, as a general rule, be used in the case of an ordinary trading concern, but it could be utilised to great advantage in a concern such as a water company which has numerous personal accounts against which it makes regular quarterly or half-yearly charges, or by a municipality or shire which charges rates yearly or half-yearly against the ratepayers.

A specimen of the Rates Book provided for under the regulations of the New South Wales Local Government Act of 1906 is supplied herewith. The portions of this book relating to valuations have been omitted, as space will not permit of their being included, but the essential portion to illustrate the use of the Tabular Ledger is shown.

It will be noted that a separate line is set apart for each ratepayer, any arrears owing by him for the previous period or periods being carried forward in the first money column. The next column shows the amount of the general rate chargeable against him for the current year and the "total" column supplies the addition of these two amounts. As payment is made, the amount is shown on the same line in the columns to the right and provision is also made for charging interest on arrears or for the writing off of any rates abandoned. The last column shows the balance owing by each ratepayer at the end of each year, and this amount is carried forward to the set of pages utilised for the rate book for the following year.

GENERAL RATE BOOK.

Year ending 31st December, 19 .

Assessment Number	Owner.				Occupier				Assessment Number.	Amount Payable.				Amount paid during half-year ending 30th June, 19						Amount paid during half-year ending 31st December, 19						Total amount paid for Rates and Arrears (excluding interest).	Rates abandoned.		Arrears carried forward.		Assessment Number.
	Surname.	Other Names.	Trade or Occupation.	Postal Address.	Surname.	Other Names.	Trade or Occupation.	Postal Address.		General Rate.				Date.	By whom paid.	Receipt No.	General Rate.		Interest at 4 per cent.	Date.	By whom paid.	Receipt No.	General Rate.		Interest at 4 per cent.		Amount.	Date of Council's Minute authorising abandonment.	Due date.	Rates.	
										Arrears brought forward.		For year 19 at in the £ due on (date.)	Total				Arrears.	For year 19					Arrears.	For year 19							
										Previous Assessment No.	Amount																				
1	2	3	4	5	6	7	8	9	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47
											£ s. d	£ s. d.	£ s. d.				£ s. d.	£ s. d.	£ s. d.				£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.			£ s. d.	

The second money column already referred to acts as the General Rate Book for the year, and the total is posted to the debit an Adjustment account equivalent to the Sundry Debtors account in an ordinary trading concern, and to the credit of General Rates account. The total cash received from the ratepayers is posted monthly to the credit of the Adjustment account,as are also any amounts written off for rates abandoned and the balance of the Adjustment account will agree with the total of the arrears carried forward, as shown in the last money column. A careful study of the ruling supplied should make the method of keeping this book quite clear.

Tabular Ledgers may also be used to advantage by newspapers and other periodicals which have regular subscribers; by educational establishments which make regular quarterly or half-yearly charges against students, and by practically any concern which makes regular but infrequent charges against the personal accounts.

This form of Ledger is also used by hotels, which must necessarily make the book of first record perform the office of a personal ledger for their guests, as these accounts must be kept written up to date. In a Hotel Ledger a separate page is set apart for each day, the numbers of the rooms and, if necessary, the names of the occupants being shown in the Particulars column on the left-hand side. A number of money columns is then included headed with the various charges which may be made against the personal accounts during the day and these columns are added downwards and across. The cross totals show the total amount due by each guest for each day, any cash received in settlement or part settlement of the accounts being entered in the money column to the right of these totals. The balances of the personal accounts are shown in the "Balance" column and are carried forward on the same lines on the page for the next day's transactions.

The downward totals of the various charges columns are also carried forward and are, at the end of the month, posted to the credit side of the respective nominal accounts. A specimen of a page from a Hotel Ledger is supplied herewith.

FORM OF HOTEL LEDGER.

Friday 3rd May 19

Room No	Name	Balance from 2nd May	DAILY CHARGES											Total Debits	Rec No	Credits	Balance Forward
			B'fast	Lunch'n	Dinner	Supper	Attend'ce	Cigars & Tobacco	Refreshm'ts	Laundry		Sundries	Partie				
	Brought Forward																
	Carried Forward																

CHAPTER XVII.

DEPARTMENTAL ACCOUNTS AND BRANCH ACCOUNTS.

DEPARTMENTAL ACCOUNTS.—As explained in Chapter XVI., the tabulation of the Day Book, Invoice Book, &c., under the heading of the various departments of a business will enable the monthly totals of the transactions relating to the respective departments to be ascertained without difficulty, and this, in turn, will enable the amount of gross profit earned by each department to be arrived at. In businesses with a large number of departments it is more usual to provide a separate Day Book, Invoice Book, &c., for each department, instead of tabulating the one book, and this, of course, enables the same information to be ascertained.

The importance of keeping proper departmental accounts cannot be over-estimated, as it is just as important that the proprietor of a business containing a number of departments should be able to ascertain the separate result of the trading of each, as it is that a proprietor of a small business should be able to find the result of the transactions for the business as a whole. By preparing a separate account for each department the proprietor can ascertain without difficulty those which are being conducted satisfactorily and those which are not, and can set about remedying any defects which exist. If, however, only one account is prepared for the whole business, it is clear that any such defects will remain undisclosed.

Given the Stock, Sales, Purchases, &c., for each department, it is, of course, a simple matter to prepare separate Trading accounts, and in this way the amount of gross profit earned by each department is disclosed, and it can readily be seen whether or not each department is earning the anticipated percentage of profit on sales. The preparation of such accounts along proper lines provides an almost equally important check in that it enables it to be ascertained whether the stock has been taken accurately. It is sometimes possible to work a department on a fixed percentage of gross profit and, where this percentage is adhered to, the

amount of stock-on-hand at any time can be readily ascertained and the periodical stocktaking acts mainly as a check upon whether this percentage has been strictly adhered to.

If, for example, a department regularly adds, say, 33⅓ per cent. to the landed cost of goods in order to enable the selling price to be ascertained, the gross profit should be 25 per cent. of the sales. With this information and the amount of stock on hand at the previous balance day available, the present stock on hand can be ascertained without difficulty, being the excess of the stock at the beginning, plus landed cost of stock purchased, plus gross profit over the sales. These estimated Stock accounts are, in many cases, prepared each month and they prove very useful in enabling the manager of each department to see whether he is maintaining his stock at a normal level.

If, however, it is not possible for a department to work on a fixed percentage of gross profit, a similar result can be arrived at by taking the average percentage earned in previous years. Assuming, therefore, that a department adds invariably 33⅓ per cent. to cost price in order to ascertain the selling price, or that the percentage of gross profit disclosed in previous years equals 25 per cent. on sales, an estimated Stock account could be prepared each month without difficulty on the following lines:—

Stock on hand at beginning of period	£5,000
Plus Purchases (including charges incurred in landing goods at warehouse)	8,000
Plus Gross Profit, equalling 25 per cent. on Sales ..	2,500
	15,500
Less Sales	10,000
Stock on hand at end of month	£5,500

Departmental Transfers.—Care should be taken to ensure that a proper record is kept of transfers of goods from one department to another, otherwise the amount of gross profit shown to be earned by each department will be incorrect, and a disturbing element will be introduced into the estimates of the value of stock which should be on hand in each department. Any such transfers should be made at cost price, i.e., the price at which the goods were landed in the warehouse. Where such transfers are frequent it is advisable to keep a special Transfer Journal, for recording such transactions.

It is important also to see that, in connection with the accounts of the department supplying the goods, the cost

DEPARTMENTAL TRADING ACCOUNT.

			Drapery	Grocery	Iron-mongery	Total				Drapery	Grocery	Iron-mongery	Total
Jan.	1	To Stock	2.750	1.250	750	4.750	Dec.	31	By Sales ...	6,050	8,375	1,950	16,375
Dec.	31	" Purchases	4 468	7.050	1,580	13,098			" Stock ...	2,680	1,200	750	4,630
		" Gross Profit ...	1,512	1.275	370	3,157							
			£8,730	9,575	2.700	21,005				£8,730	9,575	2,700	21,005
			24.9°/o	15.2°/o	18.1°/o								

DEPARTMENTAL PROFIT AND LOSS ACCOUNT.

			Drapery	Grocery	Iron-mongery	Total				Drapery	Grocery	Iron-mongery	Total
Dec.	31	To Rent	160	100	40	300	Dec.	31	By Gross Profit	1,512	1.275	370	3,157
		" Wages and Salaries ..	520	500	140	1.160							
		" Advertising	50	20	5	75							
		" Discount and Interest	20	30	5	55							
		" Lighting & Telephone	12	12	3	27							
		" General Expenses ...	40	45	10	95							
		" Bad Debts	50	30	5	85							
		" Depreciation	20	15	2	37							
		" Net **Profit**	640	523	160	1.323							
			£1 512	£1,275	370	3,157				£1,512	1,275	370	3,157
			10.6°/o	6.2°/o	8.2°/o								

value of such goods is credited to Purchases account and not to Sales account, as, if the latter course is followed, the percentage of gross profit will be disturbed.

Trading Account.—Where the number of departments is not too numerous, the Trading account could be prepared in tabular form. This would facilitate a comparison of the various items in the Trading account for each department, as well as show the totals for the whole business in a convenient form. A specimen of the Trading account of a business with three departments is supplied.

Profit and Loss Account.—In most cases, the preparation of separate accounts for each department is confined to the Trading account, seeing that the results disclosed therein can be shown accurately. It sometimes happens that the proprietor requires the net profit for each department to be ascertained, and this will entail the preparation of separate Profit and Loss accounts. The latter cannot be prepared with the same degree of accuracy as a departmental Trading account, seeing that there will have to be included in these accounts expenses which are applicable to the whole of the departments, and the proportion of such expenses to be charged to each department can only be estimated.

Some Profit and Loss charges, such as Bad Debts, Department Salaries, Commissions, etc., are capable of being apportioned accurately, the nature of the charges being determined to a great extent by the class of the business, but other expenses, such as Office Salaries, Depreciation, Rent, Discounts, will have to be apportioned between the departments on an estimated basis. Discounts received, for instance, could be apportioned according to the purchases, and Discounts allowed according to the turnover. Rent might be apportioned according to the value of the space occupied by each department, and the other expenses along similar lines.

If common sense is exercised in apportioning such items, the net profit shown for each department will prove to be fairly reliable, but it cannot be looked upon as being strictly accurate. An illustration of a departmental Profit and Loss account is supplied.

BRANCH ACCOUNTS.—This class of accounts seems to present a considerable amount of difficulty, both to students and to those who have to deal with them in actual practice. It is proposed, therefore, to deal with this subject fully, and explain as clearly as possible the method of treatment

in the books under the various conditions upon which the Branches may be conducted.

The amount of bookkeeping work to be performed at a Branch will depend to a great extent upon the arrangement under which the Branch is to be run. In some cases, a Branch merely acts as a kind of selling and distributing agency, orders being booked at the Branch which are executed by the Head Office upon receipt of advice as to the goods sold. In such cases the whole of the bookkeeping work will be performed at the Head Office, which will keep the accounts of the customers and collect the moneys owing, either direct or with the aid of the Branch staff. Where this arrangement is made, the Branch accounts in the Head Office books will probably be run upon the same lines as the accounts of a department already described in this chapter. Such a method of dealing with the Branch transactions has the advantage of enabling the Head Office to keep direct control of the whole of the Branch's affairs, and also saves the necessity of keeping a bookkeeper at the Branch.

On the other hand, it is clear that this method will not prove quite so satisfactory to the Branch, in that it has no record of past transactions and the delay and inconvenience caused in obtaining information, where necessary, for customers will militate against the best interests of the Branch. A more usual method is to provide for the keeping of a complete set of books at the Branch itself. In most cases, all goods required at the Branch will be supplied by the Head Office at cost price. All cash received by the Branch is either remitted intact to the Head Office at regular intervals, Head Office forwarding cheques to cover expenses, or the Branch will pay its own expenses and remit any surplus cash periodically to the Head Office.

Entries in the Branch Books.—The keeping of the Branch books, where such an arrangement is entered into, does not present any difficulties. The customers' ledger and books of first entry will, of course, be kept upon exactly the same lines as similar books at the Head Office, except that all purchases will, generally speaking, be made from Head Office, and it will not therefore be necessary to keep a Bought ledger. With regard to the keeping of the Private ledger, an account will be opened therein called Head Office account, and this account will be credited with all goods, cash, etc., received from the Head Office and debited with all returns, remittances, etc., sent to Head Office. The Head Office account may be viewed as the Capital account of the Branch. Any

expenses paid will be posted in the usual way to suitable Nominal accounts in the Private ledger.

In the Head Office Books.—In the books at Head Office an account will be opened called Branch account and this account will be debited with all goods, cash, etc., forwarded to the Branch and credited with any returns, remittances, etc., received from the Branch. It will be seen therefore, that this account will be a copy, in a reversed form, of the Head Office account kept in the Branch books. A Nominal account will be kept in the Head Office books, to which the value of all goods supplied to the Branch will be credited and all returns debited. The credit balance in this account should always equal the debit balance in the Goods Received from Head Office account (taking the place of Purchases account) in the Branch's Private ledger.

Procedure on Balance Day in the Branch Books.—The procedure at the Branch on balance day will, up to a certain stage, be precisely similar to that in the books of an ordinary trading concern. Stock will be taken, and the necessary entries made through the Journal for any items of accruing income or expenditure. A Trading account and Profit and Loss account will then be prepared upon the usual lines, and the amount of net profit will be transferred to the credit of Head Office account.

The Branch is not always required, however, to prepare a Trading and Profit and Loss account, although there is no reason why this should not be done on all occasions. Where it is not required to prepare these accounts, the Trading and Profit and Loss items, including the Stock on hand at beginning and end of the period, will be transferred direct to the debit or credit of Head Office account, the result, of course, being the same as if the net profit only were transferred to that account. In either case, the balance of Head Office account will be increased by the amount of net profit earned by the Branch during the period, and the Head Office account will then represent the excess of the assets over the liabilities at the Branch.

It might be mentioned here that very often an account called Remittance account is opened in the Branch books, and any remittances of cash made by the Branch to Head Office will be debited to Remittance account instead of to Head Office. The object of opening this account is to enable the amount of remittances made by the Branch to Head Office to be ascertained readily at any time, but the account is merely an interim account, and must be transferred to the debit of

Head Office account at the end of the financial period, the effect being the same as if the amounts remitted had been originally debited separately to the Head Office account.

When the final entries have been passed at the Branch, it will send a copy of the Trial Balance, Trading account, Profit and Loss account and Balance Sheet to the Head Office. Although the keeping of the accounts in the Branch books presents no difficulty, the following example will enable the exact procedure to be followed, and will, perhaps, make the entries to be passed in the Head Office books clearer:—

The following is the Trial Balance of the Goulburn Branch of the Sydney Trading Co., Ltd., on the 31st December, 1920:—

Head Office Account		£1,500
Sales Account		4,350
Commission Account		25
Discount Account	£12	
Office Furniture	200	
Goods Received from Head Office	3,500	
Salaries	200	
Rent	150	
Sundry Debtors	1,243	
Stock	350	
Bank Account	220	
	£5,875	£5,875

The Stock Sheets show the value of the stock on hand at £500.

Show the closing Journal entries in the Branch books and prepare Branch Balance Sheet.

	Dr.	Cr
Trading A/c	£3,850	
To Stock A/c		£350
„ Goods received from Head Office A/c		3,500
Sales A/c	4,350	
To Trading A/c		4,350
Stock on Hand A/c	500	
To Trading A/c		500
Trading A/c	1,000	
To Profit and Loss A/c		1,000
Commission A/c	25	
To Profit and Loss A/c		25
Profit and Loss A/c	362	
To Discount A/c		12
„ Salaries A/c		200
„ Rent A/c		150
Profit and Loss A/c	663	
Head Office A/c		663

BRANCH BALANCE SHEET.

LIABILITIES.			ASSETS.	
Head Office Account ..	£1,500		Bank Account	£220
Plus Net Profit for the year	663		Sundry Debtors	1,243
		£2,163	Stock	500
			Office Furniture	200
		£2,163		£2,163

Entries in the Head Office Books.—The entries to be made in the Head Office books will depend upon the exact nature of the information which it is desired to disclose therein. There are three recognised methods of bringing the Branch figures into the Head Office books, but it should be noted carefully that whatever system is utilised the Branch account must be closed off in the Head Office books over Balance Day. The Branch account has throughout the period been used as a current account, for the purpose of charging and crediting the Branch with goods, cash, etc., supplied to and received from the Branch, but on Balance Day this account is used as the medium through which the entries incorporating the figures disclosed in the Branch's Trial Balance or Balance Sheet in the Head Office books are made, the result being that the Branch account will be closed off. That this is so will be seen from the examples supplied in the illustration of the three methods already referred to.

First Method.—Where it is not desired to show the result of the trading at the Branch separately in the Head Office accounts, but merely to combine the Branch's figures with the Head Office figures, and show one general Trading account and Profit and Loss account, a Journal entry will be passed crediting Branch account with the total of the debit balances disclosed in its Trial Balance, and debiting the corresponding accounts in the Head Office books with the individual amounts.

Similarly the Branch account will be debited with its credit balances (omitting, of course, the credit balance in Head Office account), and corresponding credit entries will be made in the same accounts in the Head Office books. Unless there are outstanding items, the debit balance in Branch account in the Head Office books on Balance Day will equal the credit balance in Head Office accounts in the Branch books, and it will therefore be seen that, if an entry is passed crediting Branch account with all its debit balances, and debiting Branch account with all its credit balances (omitting Head Office account), that account will be closed off.

Referring again to the Trial Balance already supplied, and utilising this again for the purposes of illustration, the following Journal entries passed in the Head Office books would have the effect of incorporating the whole of the Branch figures with the Head Office figures, the items shown in the Trial Balance being added on to the corresponding accounts in the Head Office books and the Branch account closed off.

Discount A/c	Dr.	£12	
Office Furniture A/c	Dr.	200	
Goods sent to Branch	Dr.	3,500	
Salaries A/c	Dr.	200	
Rent A/c	Dr.	150	
Sundry Debtors A/c	Dr.	1,243	
Stock A/c	Dr.	350	
Bank A/c	Dr.	220	
To Branch Account			£5,875
Being entries incorporating the Branch debit balances as per Trial Balance on the 31st December, 191			
Branch A/c	Dr.	4,375	
To Sales A/c			4,350
,, Commission A/c			25
Being entries, etc.			
Stock on hand A/c	Dr.	500	
To Trading A/c			500

It will be noticed that the Goods received from Head Office account, shown in the Branch Trial Balance, is transferred to the debit of the corresponding account (Goods sent to Branch account) in the Head Office books, the result being to close the latter account off. Where this method of treating the Branch figures is adopted these accounts are merely interim accounts, which are opened for the purpose of enabling the double-entry to be completed in each set of books, and, on balance-day, they are both eliminated in the manner indicated.

The treatment of the Stock on hand at the end of the year should be noted carefully, the Branch's Stock being treated in the same way as Stock on hand at Head Office, but it should be shown separately in the Head Office books. Seeing that the Stock on hand at the end is not included in the Branch's Trial Balance, it is clearly incorrect to put this amount through the Branch account, as, if this is done, the effect will be that the Branch account will not be closed off. After the above Journal entries have been posted, the Branch account in the Head Office books will appear as under:—

BRANCH ACCOUNT (in Head Office Books).

Dec. 31.—		Dec. 31.—	
To Balance (on balance day morning)	£1,500	By Discount	£12
„ Sales A/c.	4,350	„ Office Furniture	200
„ Commission A/c.	25	„ Goods sent to Branch A/c.	3,500
		„ Salaries A/c	200
		„ Rent A/c	150
		„ Sundry Debtors A/c.	1,243
		„ Stock A/c	350
		„ Bank A/c	229
	£5,875		£5,875

A general Trading account, Profit and Loss account and Balance Sheet will then be prepared from the Head Office books, and the results shown will represent the position of the business as a whole. The above method of bringing the Branch figures into the Head Office books has the merit of simplicity, but on the other hand, it does not provide for any permanent record in the Head Office books of the amount of profit earned or loss incurred at the Branch, and in most cases this information will be desirable. In order to enable this information to be shown, the method next described is often used.

Second Method.—Where it is the custom for the Branch to prepare its own Trading account, Profit and Loss account and Balance Sheet, the course is sometimes followed of bringing merely the final result as shown by the Profit and Loss account into the Head Office books, the amount of the net profit being debited to Branch account and credited to the Profit and Loss Appropriation account at Head Office. The various assets and liabilities as shown by the Balance Sheet are then credited and debited to the Branch account, in the manner indicated in describing the first method, corresponding entries being made in the various Asset and Liability accounts at Head Office.

The result obtained will naturally be the same as that shown under the first method, the only difference being that, instead of the whole of the Branch's nominal accounts being added to the corresponding nominal accounts in the Head Office books, the net difference between these Nominal accounts has been ascertained from the Branch Profit and Loss account and included in the Head Office figures by debiting the Branch account and crediting the Appropriation account. This method certainly provides for a permanent record in the Head Office books of the amount of net profit earned by the Branch, but it does not, of course, make any provision for showing in the Head Office books the details of how this net

profit has been arrived at, and this may be, in some instances, a disadvantage.

The third method, described below, provides for showing full details of the Branch's trading, in addition to the amount of the Branch's net profit, in the main books, and, for that reason, is perhaps the most satisfactory method of treatment.

Before commencing to describe the third method, it may be useful to compare the difference in the treatment of the Branch's Stock on hand at the end of the year under the second method with that under the first method. Under the second method the Stock on hand at the end of the year is passed through the Branch account, as it has already been included in the Branch figures, and is shown in the Branch Balance Sheet. The value of the Branch's Stock on hand at the end of the year is, of course, included in the amount of net profit shown to have been made by the Branch, and, seeing that the Branch has been debited with the amount of its net profit, it is clearly entitled to be credited with the amount of Stock nominally taken over by the Head Office on Balance Day. That this is the correct treatment of the Branch's Stock will be seen from the fact that it is necessary to put this Stock through the Branch account, in order to enable that account to be closed off.

The following Journal entries, working from the figures already supplied, will show the second method of treating the Branch figures.

Branch Account	Dr.	£663	
To Profit and Loss Appropriation A/c			£663
Being amount of net profit as shown by the Branch's Profit and Loss Account.			
Bank A/c	Dr.	220	
Sundry Drs. A/c	Dr	1,243	
Stock A/c	Dr.	500	
Office Furniture A/c	Dr.	200	
To Branch Account			2,163
Being the assets of the Branch as shown by its Balance Sheet on the 31st December, 1920, incorporated in the Head Office books as on this date.			

BRANCH ACCOUNT.

Dec 31—		By Bank A/c	£220
To Balance	£1,500	„ Sundry Debtors A/c ..	1,243
„ Appropriation A/c. (net profit)	663	„ Stock A/c	500
		„ Office Furniture A/	200
	£2,163		£2,163

It should also be noted that, as the result of the Branch's trading is shown separately in the Head Office Books, the two Goods accounts receive different treatment. The Branch will treat the balance of Goods Received from Head Office account as purchases, and will transfer the amount to the debit of Trading account. In the Head Office books the Goods Sent to Branch account will be transferred to the credit of Trading account, as the Head Office is entitled to take credit for the goods which it has supplied to the Branch.

Third Method.—This method, which provides for the incorporation of the Branch figures in the Head Office books in such a way as to show separately a Branch Trading account and Branch Profit and Loss account in those books, seems to present some difficulty to those who have not had experience of this system in actual practice. There is, in reality, nothing inherently difficult in this method, and it is thought that a careful perusal of the following explanation will enable it to be grasped without difficulty.

The chief difference between this method and the first one described is that, instead of transferring the Branch Nominal accounts to the corresponding Nominal accounts in the Head Office books, these accounts are transferred to Branch Trading and Branch Profit and Loss accounts, which are shown separately in the Head Office books. For example, the amount of the sales as shown by the Branch's Trial Balance, instead of being credited to Head Office Sales account, will be transferred to the credit of Branch Trading account, and Branch rent will be transferred to the debit of Branch Profit and Loss account instead of to the debit of Rent account. The net profit as shown by the Branch Profit and Loss account will be carried to the credit of Appropriation account.

After the nominal accounts have been treated as indicated above, the Branch Assets and Liabilities will receive the usual treatment, being carried to the debit or credit of the corresponding accounts in the Head Office books—not to separate accounts, seeing that it is not usually necessary to prepare a separate Balance Sheet for the Branch. It should be clear, therefore, that the only difference from the first method is in connection with the treatment of the Nominal accounts.

Utilising again the figures supplied in the Branch Trial Balance, the following Journal entries will have the effect of incorporating the Branch figures in the Head Office books, so as to show a separate Trading account and Profit and Loss account for the Branch therein:—

Branch Trading A/c		Dr.	£3,850	
Stock A/c	£350			
Goods received from H/O. A/c.	3,500			
To Branch A/c				£3,850

Branch A/c	Dr.	4,350	
To Branch Trading A/c (Sales)			4,350

Stock on Hand A/c	Dr.	500	
To Branch Trading A/c ..			500

Branch Trading A/c	Dr.	1,000	
To Branch Profit and Loss A/c			1,000
Being amount of gross profit at Branch transferred.			

Branch A/c	Dr.	25	
To Branch Profit and Loss A/c Commission			25

Branch Profit and Loss A/c ..		Dr.	362	
Discount	£12			
Salaries	200			
Rent	150			
To Branch A/c				362

Branch Profit and Loss A/c ..	Dr.	663	
To Profit and Loss Appropriation A/c			663

Bank A/c	Dr.	220	
Sundry Drs. A/c	Dr.	1,243	
Office Furniture A/c	Dr.	200	
To Branch A/c			1,663
Incorporating Branch figures in Head Office books.			

It will be noted that the Goods received from Head Office account, as shown in the Branch's Trial Balance, is transferred to the debit of the Branch Trading account, as this item represents the amount of the Branch's purchases from Head Office. The Goods Sent to Branch account in the Head Office books will, of course, be credited to the Head Office Trading account in the manner indicated under Method No. 2. The following is a copy of the Branch account as it would appear in the Head Office books after the above entries had been posted:—

BRANCH ACCOUNT.

Dec. 31—		By Branch Trading A/c:—	
To Balance	£1,500	„ Stock	£350
„ Branch Trading A/c (Sales)	4,350	„ Goods Received from Head Office A/c..	3,500
„ Profit and Loss A/c (Commission)	25	„ Branch Profit & Loss A/c.:—	
		„ Discount	12
		„ Salaries	200
		„ Rent	150
		„ Bank	220
		„ Sundry Debtors	1,243
		„ Office Furniture	200
	£5,875		£5,875

Reversing Entries After Balance Day.—It will be seen from the procedure described in connection with all three methods dealt with, that the Assets and Liabilities at the Branch are treated in the Head Office books as though these were actually taken over by the Head Office from the Branch on balance day. In any case, the entries are made in the Head Office books as though this were actually done and, on balance night, the whole of the Branch's Assets and Liabilities are shown added on to the Head Office figures, the result being, of course, that the Branch account in the Head Office books is closed off.

On the morning after balance day, it is necessary to pass reversing entries in the Head Office books, taking these figures out of the various Asset and Liability accounts and passing corresponding debit and credit entries in the Branch account. Continuing the illustration already supplied, the following reversing entries will be passed on the 1st January, 1921:—

Branch Account	Dr.	£2,163	
To Bank A/c			£220
„ Sundry Debtors A/c..			1,243
„ Stock-on-hand A/c ..			500
„ Office Furniture A/c ..			200

After these entries are passed, it will be seen that the balance in Branch account will be: Dr. £2,163, and, referring back to the closing entries in the Branch books and to the Branch Balance Sheet, it will be seen that this agrees with the credit balance in Head Office account in the books of the Branch.

Entries Where Goods Supplied by Head Office at More Than Cost Price.—The specimen entries given in connection with the three methods already mentioned have been supplied on the understanding that the goods have been sent from Head Office to the Branch at cost price, but, although

this is the usual custom, it sometimes happens that the Head Office invoices the goods to its branches at more than cost price—in some cases, at the selling price. No variation of the procedure will be necessary in the Branch books, whichever system is adopted, although, where goods are invoiced to the Branch at selling price, i.e., at the price at which the Branch must sell to its customers, no advantage is gained by the Branch preparing its own Profit and Loss account, seeing that the Branch must, on the figures shown in its own books, run at a loss equalling the amount of its expenses. This method of invoicing is often adopted where the goods are of a valuable nature, as it supplies a good check on the Branch's stock. The Stock on hand must always equal the excess of Stock at the beginning of the period, plus goods received from Head Office over the sales.

Where goods are invoiced from the Head Office to the Branch at more than cost price a somewhat different procedure will be necessary in the Head Office books upon receipt of the final figures from the Branch, and it will be advisable to explain the entries required under each of the three methods already dealt with. The only difference is in connection with the treatment of the Stock, and great care must be exercised in order to ensure that the Stock, which will naturally be included in the Branch books at the price at which it is invoiced by the Head Office, is not included in the Head Office books at more than cost price, otherwise the Head Office will be taking credit for profit which is not yet earned.

First Method.—Suppose, for instance, that the Branch, in forwarding the Trial Balance supplied, sent a statement showing that the value of the Stock on hand was, say, £550, and that the Head Office had invoiced the Stock to the Branch at 10 per cent. above cost price. The actual cost of this Stock to the Head Office was therefore £500, and, in preparing the Trading account, the Stock must be shown at this amount, Stock on hand account being debited £500 and Trading account credited a similar amount.

On passing the reversing entries, however, at the beginning of the new financial period, the Branch must be debited with £550, as this is the figure at which it has the Stock included in its own books. It would not be correct for Head Office to credit the whole of this £550 to Stock on hand account, as this would reduce the balance of that account to £50 less than the correct amount. The extra £50, representing the additional 10 per cent. charged against the Branch,

must be credited in the meantime to a Branch Stock Suspense account, the complete Journal entry being as under:—

Jan. 1, 1921—			
Branch A/c	Dr.	£550	
To Stock-on-hand A/c..			£500
,, Branch Stock Suspense A/c			50

At the end of 1921, when the Branch's final Trial Balance is received, the Stock at the beginning of the year must again be brought into the Head Office books, the Branch being credited with the full £550, Stock account debited with £500, and Branch Stock Suspense account with £50, thus closing the last-mentioned account off. Branch Stock Suspense account will require to be re-opened on the first day in the new year, and it will be credited with the 10 per cent. added to the Stock on hand at the end of 1921.

Any goods supplied to the Branch during the year will, of course, have the usual 10 per cent. added, the invoice price being credited to Goods Sent to Branch account. As, however, the Goods Received from Head Office account, which will show in the Branch's Trial Balance at the end of the year, will be transferred to the debit of Goods Sent to Branch account, closing that account off, no adjustment of the last-mentioned account will be necessary where the method above referred to is used.

Second Method.—Where the Branch prepares its own Profit and Loss account and Balance Sheet and the Head Office merely passes entries to bring into its books the Branch's net profit and Liabilities and Assets, the entries in the Head Office books in connection with the stock are a little more involved.

As the Branch Stock will, of course, be taken at the value at which the goods are supplied by Head Office, and it is only reasonable that the Branch should include the Stock on hand at this price, seeing that the goods, as received, have been charged against the Goods Received from Head Office account on the same basis and the Branch's Trading account has to bear the full charge.

Coming now to the Head Office books, it is evident that the Branch must be credited with the Stock at the value at which it is stated in the Branch Balance Sheet, otherwise it will be impossible to close the Branch account off. The only difficulty arises in connection with the debit entry or entries to be made in connection therewith. It is clear that the Head

Office cannot state this Stock in its own books at the valuation placed on it by the Branch, as, by doing so, it would be including this Stock at more than cost price. Stock on hand account is therefore debited with the cost price of the Stock at the Branch. The balance, representing the percentage added by Head Office in forwarding this Stock to the Branch, must be debited to Goods Sent to Branch account, reducing that account to its proper figure.

The Head Office has throughout the year credited Goods Sent to Branch account with the value of the goods sent to the Branch, plus the prescribed percentage—in this case 10 per cent. In connection with the goods which the Branch has sold, the Branch has made its profit over and above this 10 per cent., and the Head Office is therefore entitled to take credit in its own books for the 10 per cent. addition on those goods actually sold.

The Goods Sent to Branch account, however, includes not only the goods actually sold, but also the Stock remaining on hand at the Branch, and it is evident that the Head Office must not take credit for the 10 per cent. addition on the Branch's final Stock. By debiting Goods Sent to Branch account with the proportion of the Branch's Stock on hand, as indicated above, the necessary adjustment is made, and that account can then be transferred to the Head Office Trading account.

Continuing the illustration supplied under the last heading, assuming that the Stock is stated in the Branch Balance Sheet at £550, ten-elevenths of this amount will be debited to Stock on hand account, and the remaining one-eleventh to Goods Sent to Branch account, by the following Journal entry:—

Dec. 31, 1920—			
Stock on hand Account	Dr.	£500	
Goods sent to Branch A/c	Dr.	50	
To Branch Account			£550
Being entry incorporating the Branch's Stock on hand at the 31st December, 1920, and adjusting the Goods Sent to Branch A/c, so that no profit will be shown on goods not yet sold.			

In passing the reversing entries at the beginning of 1921, it is clear that the Branch must be again debited with £550. In connection with the credit entries, however, the procedure is somewhat different from that explained in dealing with the first method. A credit entry for £500 will be made in Stock on hand account, and the balance (£50) will be credited to

Goods Sent to Branch account. This being the case, the Branch's Goods Received from Head Office account will not agree with the Goods Sent to Branch account in the Head Office books by this amount, but the result at the end of the year in the Head Office books will show the position correctly.

Third Method.—Under this method the Branch sends its complete Trial Balance and a special Trading account and Profit and Loss account are prepared for the Branch in the Head Office books. The Branch's Stock at the beginning of the year, as shown by its Trial Balance, will, of course, include the 10 per cent. addition, but this must be put through at the amount shown in the Trial Balance referred to, Branch account being credited with this amount and Branch Trading account debited. The treatment of the Branch's Stock on hand at the end of the year is similar to that explained under the second method above, the only difference being that the credit entry is made in the Branch Trading account instead of in the Branch account. The complete Journal entry would appear as follows:—

Dec. 31, 1920—			
Stock on hand A/c	Dr.	£500	
Stock sent to Branch A/c	Dr.	50	
To Branch Trading A/c ..			£550
Being the value of the Branch's Stock on hand as shown by the Trial Balance, etc.			

The following reversing entry would be made on the 1st day in the new year:—

Jan. 1, 1921—			
Branch Account	Dr.	£550	
To Stock on hand A/c ..			£500
„ Goods sent to Branch A/c			50

The whole of the above explanations have, for the sake of simplicity, been based on the supposition, firstly, that only one Branch of the business is in existence, and, secondly, that on balance day there are no outstanding items between the Branch and the Head Office. With regard to the former, if the entries in connection with one Branch can be passed without difficulty, the mere fact that there is a number of Branches will not cause any trouble, the procedure being the same. A separate account for each Branch will be required, and the entries for each will be passed in the manner already indicated. With regard to the second matter, i.e., outstanding items, some explanation may be necessary.

Reconciliation of Branch Books With Head Office Books.—It will not often be found in practice that the Head Office

account, as shown by the Branch Trial Balance, will agree with the Branch account in the Head Office books, more especially if the Branch is situated at some distance from the main office, and it will be found necessary in most cases to make adjustments in the Head Office books upon receipt of the Trial Balance referred to.

Suppose, for example, that the day before balance day the Head Office forwarded goods to the Branch, and passed the entry in the usual way. These goods were not received by the Branch at the time when its books were closed off and were not, therefore, included in the Trial Balance or the closing figures forwarded to the Head Office. Or, perhaps, the Branch, on balance day, made a remittance of money to the Head Office, which the Head Office will not receive until after the Cash Book has been closed. It will be seen that, in both cases, there is the necessity for some adjustment on the part of the bookkeeper at the Head Office.

With the final papers the Branch should always send a detailed copy of the Head Office account in its books, and, before incorporating the Branch figures, the bookkeeper at the Head Office should carefully tick off this statement with the Branch account in his ledger. In this way any outstanding items will be discovered, and it will be readily seen what adjustments are necessary before the closing entries are made.

Whilst on this point, it might be mentioned that the Branch should forward to the Head Office at least once a month a copy of the Head Office account in its books, and this should be ticked off at the Head Office. Another matter of importance is that strict instructions should be issued at both the Branch and Head Office, that no entry should be made in either the Head Office account or the Branch account, as the case may be, without advice being immediately forwarded by the office in which the entry originated to the other end, in order to ensure that a corresponding entry will be passed. Experience shows that, where this course is followed, a considerable amount of trouble and inconvenience will be saved later on.

Assume then that the Head Office has received the Branch's statement of Head Office account and finds that the Branch has made an entry debiting Head Office with a remittance which has not been received in time to pay it into the bank before balance night. It is evident that, if the Branch account is to be closed off in the Head Office books, an entry must be made in that account in the same way as if the Head

Office had actually received the amount in time to include it in the Cash Book, but it is equally evident that the amount cannot be included in the Bank or Cash balance on balance day. A Journal entry as under will therefore be passed:—

Remittances in Transit Account .. .. Dr.
To Branch Account.

When the cash is received after balance day, the amount will be posted to the credit of Remittances in Transit account, closing that account off.

If the Branch's statement to Head Office shows that goods have been returned to Head Office, but such were not received prior to balance night, the entry to be passed is precisely the same whichever method of incorporating the Branch figures is adopted. The Head Office must pass the entry as if the goods had actually been received, and must include the Stock, which was actually in transit on balance day, in its Stock Sheets at cost price. The Journal entry passed would be as under:—

Goods sent to Branch A/c. .. .. Dr.
To Branch Account.
Being goods returned by the Branch in transit on Balance Night.

With regard to entries made at the Head Office in connection with transactions which occur too late to be included in the Branch's final papers, any such entries must be reversed **in the Branch account** in the Head Office books. For example, any entries in connection with goods forwarded to the Branch by the Head Office, and not received by the Branch in time for inclusion in its final figures must be reversed in the Branch account. Whichever method of incorporating the Branch figures is adopted, the corresponding debit entry must be made in the Goods Sent to Branch account, and the value of the goods must be included in the Head Office Stock Sheets at cost price. On the day after balance day the above entry would be reversed, the Branch being debited, and Goods Sent to Branch account credited with the amount of the goods at the usual price.

In the case of charges against the Branch account which would affect the Branch's profits, but which have not been responded to by the Branch prior to balance day, these must be reversed in the Branch account, the corresponding entry being made in such a way as to ensure that the profits are not overstated.

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If, for instance, Head Office has debited the Branch with a proportion of Advertising expenses and this entry has not been responded to by the Branch, the Branch account must be credited, but the debit entry will depend on the method of incorporating the Branch figures which is adopted.

If the first method already explained is used the whole original is merely reversed, the debit entry being made in Advertising account.

If the second method is used the debit entry will be made in the account to which the Branch's net profit is carried as an offset against what is, in reality, an overstatement of the Branch's profits.

If the third method is used the debit entry will be made in Branch Profit and Loss account.

EXAMPLE.—The A. Co., Ltd., carries on business in Sydney and Newcastle, the former being its head-quarters. On December 31st, 1920, the Newcastle Branch submits the following Trial Balance to Head Office:—

NEWCASTLE TRIAL BALANCE, 31st Decr., 1920.

Head Office A/c		£4,830
Goods Received from Head Office	£11,950	
Sundry Debtors	2,000	
Stock, December 31st, 1919	2,500	
Sales		14,000
Rent	250	
General Expenses	500	
Cash at Bank	1,080	
Office Furniture	350	
Commission	150	
Bad Debts	50	
	£18,830	£18,830

The Branch's Stock Sheets show the Stock on hand at £3,000.

In the Head Office books the Trial Balance extracted on the same date showed the following position:—

HEAD OFFICE TRIAL BALANCE, 31st Decr., 1920.

Branch A/c	£5,090	
Goods sent to Branch		£12,090
Sales		15,000
Stock, 31st Dec., 1919	9,000	
Wages	12,500	
Materials	3,500	
General Expenses (including depreciation)	1.500	
Commission	400	
Sundry Debtors	2,000	
Business Premises	1,400	
Plant and Machinery	3,800	
Cash at Bank	500	
Reserve		1,500
Authorised Capital Account		10,000
Bad Debts	100	
Sundry Debtors		1,200
	£39,790	£39,790

Stock on hand at the Head Office at that date was £3,600, but to this amount must be added the value of the Goods in Transit to and from the Branch. On checking the Statement of Head Office account supplied by the Branch, it was found that the following items were outstanding:—

(a) The Branch had debited Head Office with a remittance of £100 not received until after the 31st December.

(b) The Branch had returned goods valued at £50, which were not received by Head Office until after balance night.

(c) The Branch had debited Head Office with £20, being an amount advanced for commission to one of the Head Office travellers.

(d) The Head Office had forwarded goods valued at £90, but these were not received by the Branch until after the Trial Balance had been prepared.

Make the necessary adjustments, and show the Journal entries necessary to incorporate the Branch figures in the Head Office books, so as to show a separate Trading account, and Profit and Loss account for the Branch. Show also the Head Office Trading and Profit and Loss account and the combined Balance Sheet.

JOURNAL ENTRIES.

Dec. 31, 1930—			
Remittance in Transit A/c	Dr.	£100	
Goods sent to Branch A/c	Dr.	50	
Commission Advanced A/c	Dr.	20	
To Branch A/c			£170
Being entries necessary to adjust the Branch A/c with the Head Office books at this date, in connection with outstanding items.			

Goods Sent to Branch A/c	Dr.	90	
To Branch A/c			90
Being entry passed for goods not received by the Branch by Balance Day.			

Branch Trading A/c	Dr.	14,450	
Stock A/c £2,500			
Goods Recd. from H/O 11,950			
To Branch A/c			14,450

Branch A/c	Dr.	14,000	
To Branch Trading A/c Sales			14,000

Stock on Hand A/c	Dr.	3,000	
To Branch Trading A/c ..			3,000

Branch Trading A/c	Dr.	2,550	
To Branch Profit and Loss A/c			2,550

Branch Profit and Loss A/c ..	Dr.	950	
Rent £250			
General Expenses .. 500			
Commission 150			
Bad Debts 50			
To Branch A/c			950

Sundry Debtors A/c	Dr.	2,000	
Bank A/c	Dr.	1,080	
Office Furniture A/c	Dr.	350	
To Branch Account			3,430

TRADING ACCOUNT, FOR 12 Months to 31st Dec., 1920.

	Head Office.	Branch.	Total.		Head Office.	Branch.	Total.
To Stock	£9,000	£2,500	£11,500	By Sales	£15,000	£14,000	£29,000
,, Goods Received from Head Office		11,950	11,950	,, Goods Sent to Branch	11,950	—	11,950
,, Wages	12,500		12,500	,, Stock on hand (including goods in transit, £140)	3,740	3,000	6,740
,, Materials	3,500		3,500				
,, Gross Profit to Profit and Loss A/c	5,690	2,550	8,240				
	£30,690	£17,000	£47,690		£30,690	£17,000	£47,690

PROFIT & LOSS ACCOUNT, For 12 Months to 31st Dec., 1920.

	Head Office.	Branch.	Total.		Head Office.	Branch.	Total.
To Rent		£250	£250	By Gross Profit	£5,690	£2,550	£8,240
,, General Expenses, including Depreciation	1,500	500	2,000				
,, Commission	400	150	550				
,, Bad Debts	100	50	150				
,, Net Profits	3,690	1,600	5,290				
	£5,690	£2,550	£8,240		£5,690	£2,550	£8,240

BALANCE-SHEET, as at 31st December, 1920.

LIABILITIES.		ASSETS.		
Authorised Capital (fully paid)	£10,000	Cash		£1,580
Reserve	1,500	Remittance in Transit A/c		100
Sundry Creditors	1,200	Sundry Debtors	£4,000	
Profit and Loss A/c	5,290	Commission Paid in Advance	20	
				4,020
		Stock on Hand	6,600	
		Goods in Transit	140	
				6,740
		Office Furniture A/c		350
		Business Premises		1,400
		Plant and Machinery		3,800
	£17,990			£17,990

CHAPTER XVIII.

STATEMENT OF AFFAIRS AND DEFICIENCY ACCOUNTS.

Up to this stage any explanations as to the procedure to be adopted in preparing the accounts of a business have been based on the assumption that the business is progressing favorably, but it is now necessary to explain what is the usual course to pursue where matters are not so satisfactory from the standpoint of the proprietor. A business which can only be conducted at a loss must sooner or later reach the stage where it will be unable to continue by reason of the demands for payment on the part of the creditors. If the proprietor of the business is unable to satisfy the claims of the creditors he has several courses open to him which, generally speaking, resolve themselves under three headings:—

(a) Make a private arrangement with his creditors, usually involving an extension of time for payment.

(b) Transfer his estate to a trustee for the creditors who will proceed to get in and realise the assets and distribute the amount realised in the agreed proportions between the creditors.

(c) File a petition in bankruptcy.

The wisest course for the proprietor of a business to follow under such circumstances is to place himself unreservedly in the hands of his creditors and make a full disclosure of his exact position to them. They will then be in a position to decide what can best be done under the circumstances. If the position is not a hopeless one, and it is fairly evident that with proper and efficient management, a recovery can be made, it is not often that the creditors will prove to be unreasonable and require the business to be wound up. If they can see a reasonable chance of obtaining full payment of their claims they will prefer, in most cases, to adopt the first method mentioned above and enter into an arrangement whereby the business is to be continued either under the old or new management, the debtor undertaking to settle the claims of the creditors within a stated period.

If the position of the business is not so satisfactory, and the creditors are satisfied that it cannot be carried on except at the risk of increasing the loss which it is almost certain they will have to bear, they will require the debtor either to effect a transfer of his estate to a trustee on their behalf, or to present a petition in bankruptcy against himself and so have his estate wound up according to the provisions of the Bankruptcy (or Insolvency) Acts. Where the unsatisfactory position has been caused more by misfortune than by an attempt on the part of the debtor to exploit his creditors, it is more usual to follow the former of these two methods, as it provides a less expensive way of realising and distributing the assets than the latter. The creditors may, in some cases, require the debtor to present a bankruptcy petition against himself or may take steps to present a creditors' petition themselves, particularly if the debtor has been guilty of fraud and, in their opinion, deserves punishment.

Whatever course is decided upon, the preparation of a Statement of Affairs will be necessary; in the first two cases for presentation to the meetings of creditors and, in the last case, the debtor is required to supply a statement of his affairs to the Official Assignee or Trustee in Bankruptcy (or Insolvency). It is proposed to deal in this chapter with the preparation of such statements.

A Statement of Affairs has a good deal in common with an ordinary Balance Sheet. In the first place it consists of a list of the assets and liabilities of a business and, secondly, it is designed to show the position of that business as on a given date. In a Balance Sheet the assets are stated at their value to the business as a going concern, but in a Statement of Affairs the assets are stated at the amount which they might be expected to bring on a forced realisation. In a Balance Sheet the liabilities are treated as being upon an equal footing, seeing that there is no anticipation that the business will be unable to discharge them all in full. In a Statement of Affairs the secured creditors are kept distinct from those who are unsecured, and the value of the security held by the former class of creditors is stated in conjunction with the amount of debt owing to them, the difference between the amount of the debt and the amount of security held being shown if there is a deficiency, as a liability, or, if a surplus, as an asset. Again, in bankruptcy certain creditors have preferential claims over unsecured creditors, and these are shown separately and must be paid in full before other unsecured creditors receive anything from the estate.

It might be mentioned that, where a private arrangement is made between the debtor and his creditors, there is,

speaking generally, no legal necessity to follow the provisions of the Bankruptcy (or Insolvency) Act with regard to prior payment of debts which under that Act rank as preferential. It is, however, usual for the creditors to follow the procedure prescribed under the Act, and to treat the debts made preferential therein as prior claims.

In South Australia and West Australia, the Act contains special provisions governing private assignments, and, in connection with arrangements made thereunder, the creditors have the same rights as to priority, &c., as in insolvency.

Any deed of assignment in those States must be signed by at least one half in number and three-fourths in value of the creditors. The trustee under the deed must notify creditors of the place where the deed is open for inspection, and must file a copy with the Registrar of the Court within fourteen days after completion. He must file every four months a statement showing receipts and payments and property outstanding and, when the estate is finally wound up, a full statement showing his total receipts and the manner in which the moneys have been disposed of.

In Victoria, a copy of every deed of arrangement to which the Act applies must be filed with the Registrar-General within ten days after execution. The trustee under the deed must not dispose of any of the property until ten days after such registration. The provisions of the Insolvency Acts as to preferential claims, proofs of debts, and rights of secured and unsecured creditors apply.

Where the books kept by the debtor are in reasonable order, no great difficulty should be experienced in preparing a proper Statement of Affairs, but, unfortunately, the class of person who is likely to get into difficulties with his creditors is one which cannot be relied upon to keep proper books of account and, in numbers of cases, the failure of a trader is attributable more or less directly to his omission to keep proper records of his transactions. Where the records are not satisfactory, or cannot be relied upon, an ordinary Balance Sheet must be prepared from such sources of information as are available. This is a matter which has already received attention, and it is not proposed to go into this portion of the subject again. Assuming that a Balance Sheet or a trial balance is obtainable, it will then be necessary to get a valuation placed on the assets, showing the amounts they are expected to realise and, when this information is available, a Statement of Affairs can then be prepared with very little trouble.

The form of a Statement of Affairs, such as would be prepared in the case of a private arrangement with creditors, is supplied at the end of this chapter. This form of statement has been given in preference to the official form, as the latter varies somewhat in the different States and, if that of one State were included, it would perhaps be misleading. It might, however, be noted that the specimen supplied follows the official form very closely, the chief difference being that, in the latter, not so much detailed information is required in the statement itself, as each asset and liability must be supported by a schedule, which gives details of how the amount is made up.

Assets Side.—Dealing first of all with the assets side, two columns will be used, the inner one being headed "Book Value," and the outer column "Estimated to Produce." The various assets are then detailed as in a Balance Sheet, the values according to the Balance Sheet being stated in the inner column, and the amount which each asset is expected to produce on realisation in the outer column. The item, Book Debts, should be subdivided and given under three headings, "Good," "Doubtful," and "Bad," and the same classification is often used in connection with Bills Receivable.

Where an asset is held by a creditor as security, this will not be shown on the assets side unless it is expected that it will realise more than the amount owing to such creditor, in which case the surplus only will be shown on the assets side. This, however, is a matter which will be explained when dealing with the liabilities. When the assets side is complete the total of the outer column, less the amount payable to preferential creditors, will supply the gross estimated amount which will be available for the payment of unsecured creditors' claims.

Liabilities Side.—Here again two columns will be required. The column to show the "Gross Liability" is usually stated to the left of the "Particulars" column, and the column to the right of the "Particulars" column shows the amount at which these liabilities are expected to rank for dividend. In a Statement of Affairs all liabilities, whether in the books or not, must be brought into account. With regard to contingent liabilities, such as Bills Discounted, an estimate will be made of the amount which it is expected will be claimed on the estate under this heading, and such an estimated amount must be included amongst the liabilities in the "Expected to Rank" column. An anticipated loss on accommo-

dation bills, which are not usually entered in the books of account, must be treated in the same way.

Unsecured Creditors.—These include all trade creditors on open account, and also any creditors for unsecured loans. Any bills payable which have been accepted by the debtor in the ordinary course of business will be shown under this heading.

Fully Secured Creditors.—In an Official Statement of Affairs provision is made for showing merely the total of the fully secured creditors. In the case of a private statement the fully secured creditors will, in all probability, be shown separately, as will also the value of the security held by each. The amount of the loan will be deducted from the estimated value of the securities held, and the total of the surplus will be transferred to the assets side, in the manner shown in the accompanying statement, under the heading of "Surplus from Securities in the hands of Creditors fully secured."

Partly Secured Creditors.—The estimated value of the securities held will be deducted from the amounts due to such creditors, and the shortage will be extended to the "Expected to Rank" column.

Other Liabilities.—Under this heading will be stated any claims against the estate, such as claims under guarantees, and other liabilities which cannot be properly included under the other headings provided.

Liability on Bills, &c.—Included under this heading will be the amount of the anticipated liability on Accommodation Bills, and any bills which the debtor had discounted at the bank, and for which he, of course, remains liable to the bank in the event of their being dishonored when due.

Preferential Creditors.—As already mentioned, provision will be made in the Statement of Affairs to show the amounts due to those creditors who are entitled to payment before anything is available for the settlement of other claims. These creditors vary in the different States, and it is therefore necessary to set out the preferential claims in each State separately.

In every State any debts due to the Crown, and the expenses and remuneration of the Assignee or Trustee have priority over other debts, and must first be paid in full.

New South Wales.—The Bankruptcy Act makes the following debts preferential:—

(a) Any amount due to any clerk, servant or workman for salary or wages for a period of not more than six months prior to the date of the order adjudging the debtor a bankrupt and for an amount not exceeding £50 in each case. It should be noted that the amount of £50 is the maximum amount for each clerk or workman, and that no claim for more than six months' salary or wages will rank as preferential. Any salaries or wages due in excess of the preferential claim will rank as ordinary debts.
(b) Provision is also made for a refund of the unexpired proportion of an apprentice's premium where a satisfactory transfer of the apprenticeship cannot be arranged. The amount to be repaid will be fixed by the Court after bankruptcy occurs.
(c) Rent. The landlord has a preferential claim for any rent due not exceeding three months. Any amount due in excess of three months' rent will rank as an ordinary debt.
(d) Rates.—Under the Local Government Act, 1906, the amount of rates due to a Local Authority is made a preferential claim.

Victoria:—

(a) Local rates due at the date of the order of sequestration (if they fall due within twelve months before that time).
(b) The salary or wages of any clerk or servant for not more than four months and not exceeding £50.
(c) Wages of any workman for not more than four months up to any amount.
(d) Rent.—The landlord has a preferential claim for three months' rent if at the date of sequestration there were goods to the value of the amount claimed on the premises and liable to distress for rent. The preferential claim is limited to the value of such goods as were liable to distress for rent.
(e) A proportion of apprentices' premiums.

Queensland:—

(a) All rent due and accrued up to the date of adjudication, but not exceeding in all three months' rent.
(b) (1) Local rates due at the date of the Adjudication Order. (If they fall due within twelve months before that time.)
 (2) All rates and assessments up to the 1st January or the 1st July next before the date of adjudication, but not exceeding altogether 12 months' assessment.
 (3) The salary or wages of any clerk, servant, or workman for not more than three months, and not exceeding £50.
(c) Proportion of apprentices' premiums.

South Australia:—

(a) All rates due but not exceeding 12 months' assessment.
(b) Salary due to any clerk or servant for not more than three months and not exceeding £30 (with the consent of the Court).
(c) Wages due to labor or workman not exceeding £6 (with the consent of the Court).
(d) Proportion of apprentices' premiums (with the consent of the Court).
(e) Landlord's claim.—The landlord can distrain on any goods liable to distress, but if the distress has been levied after the

date of the filing of the bankruptcy petition, the amount which he can retain out of the proceeds is limited as under:—

In the case of a weekly tenancy, not more than four weeks' rent. If the tenement is let for less than one year, not more than the amount of rent accruing due in two terms of payment. If for one year or upwards not more than one year's rent. If he levies distress prior to the filing of the bankruptcy petition he can retain the benefit of the proceeds of realisation to the extent of the full amount owing.

Landlord may prove as an ordinary creditor for any balance owing.

Western Australia:—

(a) All municipal and local rates and all public taxes due during the twelve months before the date of the receiving order.
(b) The wages or salary of any clerk or any servant for not more than four months, and not exceeding £50.
(c) The wages of any laborer or workman for not more than four months and not exceeding £50.
(d) A proportion of apprentices' premiums.
(e) Rent.—Landlord may distrain at any time before or after the commencement of the bankruptcy, provided that, in the case of distress levied after the commencement of bankruptcy, it shall be available only to the extent of six months' rent due prior to the date of adjudication. He may, however, prove for any balance owing as an ordinary creditor.

Tasmania:—

(a) All rates and taxes due at the date of Order of Adjudication within twelve months before such order.
(b) The wages or salary of any clerk or any servant for not more than four months and not exceeding £50.
(c) The wages of any laborer or workman for not more than four months and not exceeding £50.
(d) Proportion of apprentices' premiums.
(e) Rent.—The landlord can distrain at any time, but if the distress is levied after the commencement of the bankruptcy it is only available for twelve months' rent accrued due prior to the date of the Adjudication Order. The landlord can prove as an ordinary creditor for any balance owing.

New Zealand:—

(a) In payment of costs in connection with winding up the estate, including costs of procuring the Adjudication Order.
(b) Official Assignee's commission and supervisors' remuneration.
(c) Rent not exceeding six months actually due at the date of adjudication, provided there were, at the date of adjudication, goods on the premises liable, but for the bankruptcy, to distress for rent. The landlord is not entitled to any preferential claim exceeding the value of the goods so distrainable. He can, however, prove as an ordinary creditor for any balance owing.
(d) (1) The salary due to any clerk for not more than four months and not exceeding £100.
(2) Wages to any workman for not more than four months and not exceeding £50.
(3) A proportion of apprentices' premiums.
(e) In payment pari passu of all debts proved in the bankruptcy.
(f) In payment of interest at 6 per cent. per annum from the date of adjudication to the date of payment on all debts proved.
(g) Any surplus to be refunded to the bankrupt.

DEFICIENCY ACCOUNT.

Included in the forms which must be filed with the official Statement of Affairs is one which requires the preparation of a Deficiency Account, and such an account should be supplied with private statements. The object of a Deficiency Account is to show how insolvency has been brought about, the various profits and losses made by the debtor being clearly shown, and it can then be seen what have been the chief causes of his insolvent position.

It is usual to make the account relate back to the last known Balance Sheet which showed the debtor in a solvent position, the Deficiency Account being credited in the first place with his surplus on that date. To this surplus will be added all profits earned by him up to the date on which the Statement of Affairs is prepared, and there will be deducted all drawings made by him and losses incurred (including the anticipated losses on realisation as disclosed by the Statement of Affairs). The balance of this account should then agree with the deficiency, as disclosed by the Statement of Affairs.

Special care should be taken to charge against the Deficiency Account any liability disclosed in the Statement of Affairs but not shown in the books; for example, an estimated liability on Bills Discounted or on Accommodation Bills. Again, any extraordinary losses should be shown separately therein, such losses as those caused by speculation being set out clearly and not included with the net profits or losses on trading.

If the debtor's books have been kept in decent order no difficulty should be experienced in making the balance of the Deficiency Account agree with the deficiency disclosed by the Statement of Affairs. If to the capital as on a prior date is added the total profit earned, the result will show the nett assets with which the debtor has had to deal in the period. If there are set against this total the amounts which the debtor has withdrawn from his business and all the losses incurred within the business, it is evident that the balance of the Deficiency Account must represent his shortage at the present date.

It is thought that a careful study of the following example will make the method of preparing a Statement of Affairs and Deficiency Account clear. It is again mentioned that these statements are prepared along the lines of those which would be required in the case of a private arrangement with creditors, but that they follow very closely the official forms required to be supplied in the case of bankruptcy.

EXAMPLE:—

Samuel Hobforth, a merchant, finds himself in financial difficulties. He calls a meeting of his creditors, and requests you to prepare from his books and papers a Statement of Affairs and a Deficiency Account for submission at the meeting. These statements are to be prepared as on the 31st December, 1921. From his books and papers you obtain the following information:—

Sundry Debtors—		
Good	£1,280	
Doubtful (estimated to produce £1000)	2,800	
Bad	700	
		£4,780
Stock on hand (estimated to realise £2000)		4,000
Freehold Property (estimated to realise £2000)		3,300
1,000 shares in the Austral Motor Co., valued at par		1,000
Mining and Railway Shares (Shares to the value £4500 are held as security by Partly Secured Creditors and the balance by Fully Secured Creditors) valued at		9,450
Loss in connection with Law Suit		4,380
Loss on speculation in Wheat		1,800
Creditors:—Unsecured:		
Creditors on open a/c	£12,000	
Bills Payable	4,340	
		16,340
Partly Secured:		
William Johnson		5,420
Fully Secured:		
Mercantile Bank of Australia		3,110
Preferential Claim for Salaries		200
Rent		50
Rates and Taxes		10
Private Drawings		1,200
Balance of Capital A/c on 31st December, 1918		3,800
Cash on Hand		20
Office Furniture (estimated to produce £85)		200
Bills Receivable (all good)		800
Sundry Profits on Trading		2,000
Bills Discounted to the amount of £600 are current, and it is estimated that £100 will rank for dividend.		

STATEMENT OF AFFAIRS OF SAMUEL HOBFORTH AS ON 31st DECEMBER.

LIABILITIES.

Gross Liability	Particulars.		Expected to Rank.
£		£	£
	Unsecured Creditors:		
12,000	Creditors on open Account		12,000
4,340	" " Bill of Exchange .. .		4,340
	Creditors Fully Secured:		
3,110	Mercantile Bank of Australia	3,110	
	Estimated value of Security held (Shares in Mining and Railway Companies)	4,950	
	Surplus to contra	1,840	
	Creditors Partly Secured:		
5,420	William Johnson	5,420	
	Less estimated value of Security (Shares in Mining and Railway Companies)	4,500	920
600	Liabilities on Bills under Discount:	600	100
	Preferential Creditors:		
	Clerks' Salaries	200	
	Landlord for Rent	50	
	Rates and Taxes	10	
	Deducted as per contra	260	
			£17,360

ASSETS.

Particulars.	Book Value.	Estimated to Produce.
	£	£
Cash at Bank		Nil
Cash on Hand	20	20
Property:		
Stock-in-Trade	4,000	2,000
Machinery, Fixtures, Fittings, etc. ..		Nil
Furniture	200	85
Shares (1,000) in Austral Motor Co	1,000	1,000
Freehold Property (Main St., Melbourne)	3,300	2,000
Book Debts:		
Good	1,280	1,280
Doubtful	2,800	1,000
Bad	700	
	4,780	
Bills of Exchange	800	800
Surplus from Securities in the hands of Creditors fully secured		1,840
		10,025
Deduct: Preferential Creditors as per Contra		260
		9,765
Deficiency explained in Deficiency A/c ..		7,595
		£17,360

DEFICIENCY ACCOUNT OF SAMUEL HOBFORTH FOR THREE YEARS TO THE 31st December, 1921.

Dr.			Cr.	
To Drawings		£1,200	By Excess of Assets over Liabilities on 31st December, 1918	£3,800
" Loss in connection with Lawsuit		4,380	" Net profit from trading	2,000
" Loss on speculation in Wheat		1,800	" Deficiency as per Statement of Affairs	7,595
" Estimated loss on Bills discounted		100		
" Estimated losses on Realisation:				
Stock-in-trade	£2,000			
Furniture	115			
Freehold Property	1,300			
Book Debts	2,500	5,915		
		£13,395		£13,395

Partnerships.—Where an Adjudication (or Sequestration) order has been made against a firm, it is necessary to prepare in addition, a separate Statement of Affairs for each partner, as such order is made against the partners individually. In such a case it is usual to prepare, first of all, the Statements for the partners' private estates, in order to enable the surplus (if any) in the private estates to be ascertained and included among the assets in the Partnership Statement. It is not advisable to complete the firm's statement until it is seen whether there will be anything available for the partnership creditors out of the private estates. A creditor of a firm, although he can prove in the private estate of a partner, cannot rank for dividend in that estate until all the private creditors have been paid in full and, similarly, the private creditors of the partners cannot rank for dividend in the firm's estate until all the firm's creditors have been paid in full.

In preparing the firm's Statement of Affairs, loans by the partners to the firm cannot rank in competition with the claims of outside creditors, even although such loans, as between the partners themselves, would be repayable before capital. It should also be kept in mind that any loans from third parties made on the understanding that such parties are to receive a rate of interest varying with the profits, are deferred until all other creditors are paid in full. Apart from the matters mentioned above the Statement for a firm will be in the same form as that supplied in the illustration already given.

CHAPTER XIX.

TRUSTEES, EXECUTORS AND ADMINISTRATORS.

The accounts to be kept by an Executor or Trustee are so bound up with the law relating to Trustees, Executors, and Administrators that it is impossible to supply an intelligible description of the accounts without first of all giving, as briefly as possible, a resume of that portion of the law which affects an Executor, &c., in keeping his accounts.

When a man dies it is, of course, necessary that someone should take over his estate and distribute it amongst the persons entitled thereto. If the deceased person leaves a will he generally names in the will the person whom he desires to perform this office, and the person so named is called his Executor. If the deceased person has left no will, in other words, if he has died intestate, or if no Executor is named in the will, or if the Executor named in the will is unwilling to act, or is incapable of acting, it will be necessary for the Court to appoint an Administrator to wind up the estate and distribute the assets amongst the persons entitled thereto. Where a man dies leaving a will his Executor or Administrator must carry out the provisions of the will regarding the distribution of the estate, but where he dies intestate the estate must be distributed according to the provisions of the law.

A person who dies and leaves a valid will is known as a Testator, and it is proposed to describe the duties of an Executor, in so far as the keeping of the accounts is concerned, assuming that the person named in the will by the Testator is willing to take up the office.

His first duty after attending to the funeral of the deceased is to ascertain the assets belonging to the estate and to prepare an inventory thereof. He should also advertise for the creditors of the estate to send in their claims, as it is necessary for him to arrive at the net value of the estate as

at the date of death. Having prepared this statement of assets and liabilities, showing the net value of the estate, he should next advertise his intention to apply for probate and he would be wise to do this through a solicitor, who will see that the necessary formalities in connection with the application are carried out.

Until the issue of Probate the Executor is in rather a peculiar position, especially in New South Wales. An Executor is in reality the personal representative of the Testator, and he has large powers in connection with the estate. In most of the States the personal property of the Testator vests in the Executor at the time of death and he can deal with such property in the same way as the Testator could. The real property (i.e., property consisting of freehold land and houses) does not usually vest in him until he obtains probate and it is, therefore, advisable for the Executor to get the Court's approval of the will and of his appointment as soon as possible.

In New South Wales, however, neither the personal nor the real estate vests in the Executor until probate is granted and, although it is necessary for him to prepare an inventory of the assets belonging to the estate, none of this property comes legally under his control until probate has been granted. In New South Wales another peculiarity might be noted, which, no doubt, operates very unfairly in a number of cases. In preparing the list of assets and liabilities of the estate (known as the Probate Statement), the assets must be valued as on the date when probate is granted, but on the other hand the Executor is only allowed to deduct the liabilities as they stood at date of death. The exact effect of this will be seen later.

The Testator will state in his will how he desires his property to be distributed. A gift by will of personal property to any person is known as a legacy, and the person to whom the gift is made is called the legatee. A gift by will of real property is called a devise. Before, however, the Executor commences to distribute any of the property of the Testator amongst the legatees or devisees he should, for his own protection, make sure that all the creditors of the estate have been paid off, and to do this he should give due notice to the creditors by advertisement to send in their claims against the estate. If he pays or hands over legacies or devises before doing this and it is subsequently found that there is insufficient to pay all the creditors in full, the Executor will, in all probability, be required to make up the shortage out of his own pocket.

Legacies.—Legacies are four kinds:—

(a) Pecuniary or General.—Where it is left so as not to amount to a gift of a particular thing, distinguished from all others of the same kind, as for example, "I give a diamond ring" This may be fulfilled by the delivery of any ring answering to that description. An ordinary cash legacy is general.

(b) Specific.—A legacy of a specific part of the Testator's personal estate, which can be distinguished from all other things of the same kind. For example, "I give my gold watch," or "I give my diamond ring presented to me by A."

(c) Demonstrative.—A general legacy with a particular fund named out of which it is to be paid, as for example, "£300 out of my fixed deposit in the Bank of New South Wales."

(d) Residuary.—A legacy of all that remains after payment of creditors and all other legacies.

Distribution of Estate.—The Executor cannot be compelled to pay legacies until twelve months after the date of the death of the Testator, unless the will directs otherwise, and, as already stated, he should not pay any legacies until all creditors have been paid in full. If he is of opinion that the estate will not realise sufficient to pay off the creditors, his safest course is to apply to have the estate wound up under the provisions of the Bankruptcy (or Insolvency) Act, or the creditors themselves may, under similar circumstances, petition to have the estate administered in bankruptcy (or insolvency). In paying off the debts of the estate the Executor should apply the assets in the following order:—

(1) In paying the funeral and testamentary expenses and the necessary expenses of the Executor in connection with the estate.

(2) Debts due to the Crown, including probate duty.

(3) Debts given priority by Statute, e.g., subscriptions due to a Friendly Society.

(4) All other debts (which rank equally among themselves).

(5) Legacies (called voluntary debts).

The effect of paying any of the above out of their proper order amounts to an admission by the Executor that he

has sufficient assets to satisfy all antecedent debts. As already pointed out, if he paid all of the legacies first he would, in the event of the remaining assets of the estate being insufficient, be personally liable to pay all debts.

Payment of Legacies.—If, after payment of the outside creditors, the estate proves sufficient to pay all the legacies provided for in the will, no difficulty will be experienced, as the Executor will merely hand to each legatee or devisee the particular legacy or property left to him and obtain a discharge from each.

But if the estate proves insufficient to pay all legacies in full he must proceed carefully. Under such circumstances the shortage must be borne first of all by the general legatees. In other words, the specific legacies must first of all be paid in full. The demonstrative legacies are in a somewhat peculiar position. If the funds out of which they are to be paid still remain, the demonstrative legacies rank with the specific, and must be paid in full before the general legatees receive anything. If, however, the funds out of which the demonstrative legacies have to be paid have been adeemed, i.e., used up by the Testator before his death, the demonstrative legacies become general legacies for the same amount and, in the event of any abatement being necessary, they will abate proportionately with the general legacies. It might be noted here that if the subject matter of a specific legacy is adeemed by the Testator the specific legatee gets nothing, so that under certain circumstances a demonstrative legacy is more desirable than a specific legacy.

Marshalling the Assets.—If the amount of cash left by a Testator is not sufficient to pay all the debts, it becomes necessary for the Executor to realise part of the estate, and the assets must be realised in a prescribed order; a process known as "marshalling the assets." The order in which the assets are to be realised under such circumstances is as follows:—

(a) The general personal estate not bequeathed or bequeathed by way of residue only.

(b) Real estate left for the payment of debts.

(c) Real estate forming part of the residue.

(d) Real or personal property, devised or bequeathed subject to the payment of debts.

(e) General legacies and annuities.

(f) Specific legacies and specific and residuary devises (demonstrative legacies are included with specific legacies if the fund remains; if not, they are treated as general legacies).

(g) Property over which the Testator had a general power of appointment and he has appointed by will.

(h) Paraphernalia of the widow.

Death of a Legatee.—Where a legatee dies after the date of the Testator's death the legacy forms part of the legatee's estate and the Executor of the original Testator will hand the amount of the legacy over to the Executor of the legatee. But where the legatee (if not a child or other issue of the Testator) dies during the Testator's lifetime the legacy lapses, i.e., it falls into the residue. If, however, the legatee is a child or other issue of the Testator and he dies leaving issue, his children will take his share.

APPORTIONMENT.—This term, as applied to Executorship accounts, is the division of Income and Expenditure between the interests entitled thereto or subject to be charged therewith. Only Income and Expenditure which can be taken as accruing from day to day is subject to this division and the Apportionment Acts of the various States provide that such income as dividends, interest, rent, and other periodical payments are to be considered as accruing from day to day, and are to be apportioned accordingly. One of the chief duties of an Executor or Trustee is to see that the apportionment of Income and Expenditure is correctly carried out in order to enable him to protect the interests of the various parties entitled to benefit under the will.

An apportionment of Income and Expenditure is made as on the date of death of the Testator. The Executor must include amongst the assets of the estate not only the nominal or capital value of those assets, but also the income accrued upon such assets up to the date of death. Although, as already mentioned, an Executor must, in New South Wales, value the assets for probate duty purposes as at the date when probate is granted, this does not affect the actual apportionment between Corpus and Income in the books, such apportionment being made in the manner abovementioned.

All assets and income of the nature indicated accrued on those assets up to the date of death, form part of the corpus or the capital value of the estate and reference to the

specimen account shown in the next chapter will indicate the method of showing such accrued income in the Corpus account. Similarly all expenditure incurred or accrued up to the date of death will be included amongst the liabilities, and the result is that the Corpus account will show the true net value of the estate.

An apportionment of income is also made upon the cessation of the interest of any life-tenant or other person entitled to income out of the estate. Such person or his representative is entitled to the income accrued up to the date when his interest ceased. He or his estate will not be entitled to payment of this accrued income until it has actually been received in cash by the Executor or Trustee of the original Testator, but upon receipt of such income the Executor or Trustee must hand over to him or to his estate the portion accrued up to the date when his interest in the estate was determined.

Interim Dividends.—Where an interim dividend on shares possessed by a Testator has been declared during the year in which he died an apportionment should, it is thought, be made in respect of the full year's dividend and the amount of the interim dividend should be deducted, after apportionment has been made, from the portion of the estate which has actually received it.

Suppose, for example, a Testator died on the 30th September. An interim dividend on 1000 shares paid up to £1 per share had been paid on the 30th June at the rate of 5 per cent. per annum, and on the 31st December a further dividend of $7\frac{1}{2}$ per cent. was declared, making the full dividend for the year $12\frac{1}{2}$ per cent. The full dividend for the year, £125, would be apportioned 9/12ths—£93 15s. to Corpus; and 3/12ths—£31/5/ to Income. Corpus has already received £50, so that, of the £75 received on the 31st December, Corpus would receive £43 15s. and Income £31/5/. If, however, the interim dividend received by a Testator during his lifetime exceeds the proportion due to Corpus under the method of apportionment shown above, Corpus cannot be made to disgorge, and Income will only be entitled to receive the balance.

For the purpose of simplifying the illustration the above apportionment has been made in months, although it should be noted that, in actual practice, any apportionments must be made in days.

Bonus Shares Received by Trust Estates.—Where any portion of the trust funds is invested in the shares of public companies the question often arises as to whether shares issued by a company to its shareholders and paid for, either fully or partly, by a bonus dividend declared out of divisible profits form part of the Corpus of the estate or belong to the life tenant. On numerous occasions applications have been made to the Courts for decisions upon this point and, as the matter is of great importance, and as the facts in the various cases have varied, it is thought advisable to supply a brief summary of some of the decisions given.

The chief case is Bouch v. Sproule (12 A.C., 385), in which the following principle of law was laid down in the Court of Appeal and later approved by the House of Lords:—

> Where a company has the power either of distributing its profits as dividends or converting them into capital, and the company validly exercises this power, such exercise of power is binding on all persons interested under the testator or settlor in the shares and, consequently, what is paid by the company as dividend, goes to the tenant for life, and what is paid by the company as capital, or appropriated as increase of the capital stock in the concern enures to the benefit of all who are interested in the capital.

From the above it would appear that the true test in such cases is the intention of the company in making the distribution, i.e., if the company's intention in applying profits in payment of shares is to increase its capital, then a Trustee must treat any such shares received by him as part of the Corpus of the estate he is administering, but if the intention is to pay a dividend then the amount of any such dividend, whether paid in cash or in shares (but not necessarily the shares themselves), forms part of the income of the trust estate.

It is thought that the test named is one which will frequently prove extremely difficult to apply. A company does not always clearly express what are its intentions as, from a practical point of view, they are immaterial seeing that the issue of bonus shares does, in every case, result in a capitalisation of profits with a corresponding increase in the company's issued share capital.

In all decisions given since Bouch v. Sproule the principle laid down in that case has been recognised, and the Courts have confined themselves to ascertaining and deciding upon the facts in accordance therewith.

In Bouch v. Sproule the facts were as follow:—

The Company had in August, 1880, the sum of £100,000 at credit of Reserve account and £43,316,/6/1 at credit of Profit and Loss account. The directors' report stated: "Your directors feel that the time has come when they may safely recommend some permanent appropriation of the £100,000 standing to credit of reserve fund and a considerable portion of the undivided profit fund. They therefore propose that the reserve fund £100,000 and £38,000 out of the £43,316/6/1 shall be distributed as a bonus dividend of £2/10/ per share, equalling £7/10/ in respect of every three existing shares; but as the company's operations render it desirable to raise an equal amount as capital account, your directors propose that there be created 18,400 new shares of £10 each, with £7/10/ per share payable concurrently with the payment of the bonus dividend. . . ." A resolution was subsequently passed sanctioning payment of the bonus. A circular was sent out to each shareholder enclosing a dividend warrant, and asking that the warrant be signed and returned to the company, together with a form accepting the shares allotted, subject to the conditions under which they were issued. The Trustee of Bouch's estate complied.

Held (reversing the decision of the Court of Appeal) that, as the company did not intend to pay any sum as dividend, but intended to, and did, appropriate the undivided profits dealt with as an increase of the capital stock, the Trustee was bound thereby, and must treat the shares as part of the Corpus of the estate.

In re Malam; Malam v. Hitchens (1894, 3 Ch. D., 578):

The Company passed resolutions declaring a dividend payable out of the available profits. The directors sent a circular to the shareholders offering, in payment of one-half of the dividend, shares paid up to £2/10/ per share, and stating that the remaining half would be paid in cash. Shareholders could, however, take the whole dividend in cash if they so desired. The Company had sufficient liquid assets to enable it to pay the full dividend in cash. The shares, issued as paid up to £2/10/, were at a premium of £17.

Held

(a) That the company by its resolutions did intend to distribute its accumulated profits as dividend, and that the tenant-for-life was, on the principle laid down in Bouch v. Sproule, entitled to the dividend declared by the resoltuions.

(b) That the proceeds of the realisation of the shares be applied in payment first of the dividend, and the balance ought to be applied as capital.

It will be noted that the life-tenant was not held to be entitled to the shares (paid up to £2 10s. but worth on the market £19 10s.), but only to the portion of the dividend utilised in payment for such shares, i.e., £2 10s. per share.

In the above case it will be seen that the shareholders had the option of taking the amount of the dividend either in cash or in shares, and the Courts appear now to have adopted the principle that, where a real option of this kind is given to the shareholders, this is evidence that the company's intention in issuing the shares is not to capitalise profits.

Coming now to some Australian cases, the decisions given in a number of these make apparent the difficulty of applying, in all cases, the principle already mentioned.

In re Walford; Walford v. Reed, N.S.W., W.N. Vol. 27, p. 52, the facts were as follow:—

> The Colonial Sugar Refining Co., Ltd., in 1907, passed resolutions that there be issued out of the authorised capital 15,000 shares of £20 each, bringing the paid up capital to £2,500,000. Such shares were to be offered to the proprietors in the proportion of three new shares to every 22 held by each proprietor. The sum of £5 per share was to be paid by a transfer of £75,000 from Profit and Loss account, and the remaining £15 per share was to be paid up in cash. Any shares left unallotted as not being divisible by 3-22 were to be disposed of by the Board, and the premiums on such shares were to be divided proportionately amongst the proprietors entitled thereto.
>
> His Honor, Mr. Justice Simpson, stated that the general rule was laid down in Bouch v. Sproule, but he had great difficulty in deciding, in the present case, as to whether the company intended to treat the profits as capital or as income. He considered, however, that the £5 per share, to be applied in payment of new shares, was prima facie profit divisible as dividend. He thought that it was the duty of the Trustees to hold the shares as capital, but that the tenants-for-life were entitled to a charge thereon equal to the proportionate part of the £75,000 which was taken from the balance of Profit and Loss account and applied in part payment of the shares.

In the same case the question arose as to whether shares issued by the Colonial Sugar Co. in accordance with the resolutions passed in the next year (1908) were to be apportioned between Corpus and Income.

> The resolutions passed in 1908 were in the same form as those quoted above, with the following important exceptions—(a) the 17,500 shares of £20 each were to be issued as fully paid up; (b) the amount standing at the credit of Equalisation of Dividends Reserve, £165.000, Guarantee and Insurance Reserve £64,136/4/4, and a further sum of £20,863,/15/8 from Profit and Loss account were to be transferred to the Reserve account, bringing the balance of that account up to £350,000; (c) this £350,000 was to be divided amongst the shareholders in proportion to their holdings and the amount payable to the shareholders was to be applied in payment of the new shares issued, provided no direction was given to the company to the contrary.
>
> His Honor decided that the shares issued to the Trustees in accordance with the 1908 resolutions were to be treated as part of the Corpus of the estate.

It is difficult to see the reason why the £75,000 transferred from Profit and Loss in 1907 must be treated as Income and the £20,863 15s. 8d. transferred from Profit and Loss in 1908, as Corpus, especially in view of the fact that the 1907 resolutions made no provision for the declaration of any dividend, while those of 1908 did. His Honor may have viewed the transfer of the profits in 1908 through Reserve

account to the credit of the shareholders' Call account as evidence that the company intended to capitalise those profits. But profits transferred to Reserve are not thereby capitalised, as directors have the right (subject to any resolution of the shareholders to the contrary) to bring them back to Profit and Loss and so make the amount available for dividend purposes.

In an application made by way of originating summons before his Honor the Chief Justice of Victoria, in Chambers, in 1909, in re the Will of Thomas Smith, the material facts were as follow:—

> The Trustees held shares in the Colonial Sugar Refining Co., Ltd., and, in conection with the 1908 series of resolutions already referred to, they received notification that they were entitled to a certain number of shares in the company. After considering their position they wrote and asked the company whether they could receive their dividend in cash instead of in shares. The directors replied, stating that they were prepared to pay the dividend in cash on the 1st October, provided that payment of £20 per share on the new shares allotted to the Trustees be tendered to the company on that date. The Trustee paid by cheque the £20 per share on the 1st October, and the shares were duly allotted to them on the same date. On the 1st October also, the Trustees received the company's cheque for the same amount as their own in payment of the dividend. They then sold the shares, which realised £41/19/ per share. Having some doubt as to the proper mode of dealing with the proceeds of the sale of the shares, they made the application to the Court already referred to.
>
> His Honor decided that the proceeds of the sale of such shares formed part of the income of the estate.

The circumstances in re Walford and in re Smith were, to all intents and purposes, the same, the only difference being that, in the case of the latter, the trustees went through the form of taking the dividend in cash from the company and immediately handing it back again. In the former case it was decided that the whole of the shares belonged to Corpus; in the latter case it was decided that the whole of the shares, or the proceeds of the sale thereof, belonged to Income.

The position created by the above decisions can hardly be viewed as satisfactory from a Trustee's point of view, and is evidence of the impossibility of applying satisfactorily in all cases the principle laid down in Bouch v. Sproule.

Arrears on Preference Shares.—Another point of interest, but one upon which there has until recently been no decision, is in connection with the apportionment of dividends received on Cumulative Preference Shares which have been in arrears. Suppose, for example, that a Testator died on the 31st December, 1907, and that at date of death he held 1000 Cumulative 5 per cent. Preference Shares of £1 each, fully paid up,

in a trading company, upon which no dividend had been received for three years. During 1908 the company had an exceptionally good year and was enabled out of the profits for that year to pay the dividend on the Preference Shares right up to date. The point arises as to whether such dividend should be apportioned between Corpus and Income, three-fourths to Corpus and one-fourth to Income, or whether the whole amount should go to Income.

Opinions on this point appear to have been about evenly divided. It was stated on the one side that, as the money was due in respect of the four years, it should be apportioned evenly over that period. It was argued on the other side that dividends should only be apportioned over the period in which they are **earned** and in respect of which they are **declared,** and that, as the dividend on Preference Shares is only a contingent liability of the company—the dividends being contingent upon profits being earned and declared—there was nothing actually owing to the estate at the date of the Testator's death, and therefore Corpus is not entitled to any portion of the dividend paid. The case (re Wakley, Wakley v. Vachell, 89, L.J. (Ch.), 321; 35, T.L.R., 325) evidently confirms the opinion expressed in the earlier editions of this work, to the effect that under circumstances such as those indicated above, the whole of the dividend should go to Income.

It should be noted, however, that the New Zealand Apportionment Act apparently covers this point in so far as that Dominion is concerned. All dividends are deemed to have accrued evenly over the period in respect of which the payment is declared or expressed to be made.

Loss on Realisation of Security.—Another case where an apportionment should be made is where, upon the realisation of a mortgage security, the proceeds are insufficient to repay the principal to Corpus and the arrears of interest to the life-tenant. It was decided in re Atkinson that the amount realised should be divided between Corpus and Income in proportion to the amounts due respectively to each. Assume, for example, that the amount advanced was £5000 and that at the date of realisation, after allowing for any rents and other income received from the estate, the arrears of interest due to the life-tenant amounted to £500. The security realised £4500. This amount should be apportioned as between Corpus and Income as follows:—

Corpus 5000/5500ths of £4500 equals £4090.

Income 500/5500ths of £4500 equals £409.

Apportionment of Expenditure in Station Accounts.*— Where Trustees are empowered to manage and carry on a station it has been held that the following expenditure may be charged against Corpus (see re Walker, 1 S.R., Eq. 237) :—

(1) Sums expended in buying additional land for the more convenient working of the station.

(2) In sinking artesian bores.

(3) Such part of the Crown payments in Conditional Purchases as is attributable to the capital purchase money.

(4) Exceptional losses of stock by reason of flood, fire, or drought, but the income should be charged with interest at the rate of 5 per cent. on such amounts to form a sinking fund to replace the capital so used in restoring the stock to its normal level, i.e., the average number of stock which such station would carry under prudent management. I confess I should have thought 10 per cent. a safer amount.

(5) The erection of new fences to be charged to the Corpus and recouped by twenty annual instalments out of income.

(6) Other permanent improvements necessary for the management should be defrayed out of Corpus in the first instance, and recouped out of income by annual instalments, extending over such period as the Trustees may think proper.

On the other hand, the Income account should be charged :—

(1) With such portion of the annual instalments to the Crown as represents interest.

(2) With annual payments transferred to the Capital account to recoup it for the amounts expended under 4, 5, and 6 of what I have previously spoken of as charged to Corpus.

(3) With the ordinary repairs to existing fences.

(4) With the annual Trustees' commission.

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*The above summary is extracted from a lecture delivered by J. T. Lingen, Esq., M.A., Barrister-at-Law, to the Australasian Corporation of Public Accountants, and is inserted with his kind permission.

Unless there are special directions empowering the Trustees to create a Reserve fund, then they should treat each year on its own basis, and distribute as income the cash surplus coming to their hands, and arising from the carrying on of the station.

Cases Where No Apportionment Made.—Before leaving this important subject it might be noted that all Income and Expenditure is not apportionable. For example, Rent paid in advance is deemed to be due on the date when it is paid, and no apportionment is made. The same applies to Life Insurance premiums. The profits of a Partnership business are also not apportionable, as the profits in such a business cannot be said to accrue evenly from day to day. The partnership agreement will probably make provision as to the course to be followed upon the death of a partner, or, if no provision is made, the partnership must be wound up as on the date of his death. If such is the case the whole of the profits accrued up to date of death will belong to Corpus. Where, however, a partnership agreement provides that, in the event of the death of a partner, the business is to be continued on till next balance-day without any account being taken of the profits as at the date of death, and no provision is made in the deceased partner's will as to the disposal of the profits, the whole of his share of the profits when ascertained will belong to Income.

No apportionment is made between Corpus and Income upon the change of an investment, the whole of the proceeds of the sale being treated as capital, although the investment is sold cum div. and the price realised includes the value of the income accrued to date. Nor, on the other hand, is any apportionment made when investments are purchased cum div., the whole of the cost of such investments being treated as capital expenditure.

To illustrate the above, suppose a portion of a deceased person's estate consisted of 10,000 ordinary shares of £1 each in a banking company, the ex dividend value of the shares being par. The Bank had for the previous five years paid a dividend of 5 per cent. p.a. on these shares, and it was anticipated that a similar dividend would be paid for the year ending the 30th June following. These shares are sold by the Trustees, cum dividend, on the 31st March. The proceeds therefore include nine months' accrued dividend. The whole of the proceeds of the sale of this investment belongs to Corpus and the life-tenant receives no interest in respect thereof for that year. On the other hand, if the Trustees of this estate had been purchasing these shares on

the 31st March, the full cost would be borne by Corpus and the life-tenant would be entitled to the full year's dividend received thereon on the 30th June, although the shares had only been held for three months.

It might be pointed out, however, that the purchase or the sale of an investment must be made in due course of administration, and it is quite possible, as in the case of Bulkeley v. Stevens, that under exceptional circumstances the Court will order an apportionment to be made between Corpus and Income. In the case mentioned the life-tenant died just prior to date when the income on certain investments would be received, and, as this is one of the occasions upon which an apportionment must be made, the life-tenant's estate was entitled to the income accrued up to date of his death. The Trustees of the original estate, however, sold the investments before the income was actually received and, under these circumstances the Court ordered an apportionment of the proceeds of the sale between the life-tenant and the remainderman.

Investments.—It was decided in Howe v. Lord Dartmouth that, where portion of the residuary personal estate consists of assets of a wasting nature and such residuary estate has been left by the Testator to two or more persons in succession, there is an implied instruction to the Executors or Trustees to convert such property and invest the proceeds in permanent assets in order to protect the interests of such persons as will be subsequently entitled thereto. Suppose, for example, a Testator left the residue of his estate to his son subject to a life interest in favor of his widow and a portion of this residue consisted of a lease having ten years to run. It is quite possible that the widow might live during the whole of this period, and that the son would not gain any benefit from such property. The Trustees should under these circumstances realise the leasehold property and invest the proceeds in permanent assets.

It should be noted, however, that this rule does not apply to a specific legacy the subject matter of which is to be enjoyed by several persons in succession. In such a case it is obvious that the Testator intended the property to be enjoyed in its existing form. If, in the case mentioned in the previous paragraph, the Trustees were not able to effect immediately an advantageous realisation of the wasting asset, the whole of the income received pending the sale should not be handed over to the life-tenant. The life-tenant will only be entitled to receive out of the income a sum equal to 4 per cent. on the capital value of the property at the date of the Testator's death, the balance being re-invested.

If the Trustees retain such property for more than the period necessary to enable a satisfactory realisation to be effected the amount to which the life-tenant would be entitled as his share of the income must be ascertained in the following way:—

Ascertain the amount which, if invested in Government securities at one year from date of death, would at compound interest have produced the amount which the property realised. The amount so ascertained will belong to Corpus, and the balance will go to the life-tenant.

The will generally names the class of securities in which the estate is to be invested by the Trustee and, where it is not possible for him in his capacity as Executor to distribute the whole of the estate at once, and it becomes necessary to invest the trust moneys for the benefit of the life-tenants, no time should be lost in carrying out the provisions of the will with regard to such investments.

Where the will does not name the securities in which the Trustee is to invest he must invest only in authorised securities, i.e., securities authorised by law. These securities in the various States are as under*:—

New South Wales.—A trustee may invest as permitted by the trust instrument and, unless forbidden by the instrument creating the trust, it is lawful for a trustee to—

(a) Invest trust funds in:—

  (1) Any public funds or Government stock or Government securities.

  (2) Real securities in any part of New South Wales. (This means upon mortgage of freehold estate. It does not confer a power to purchase real estate.)

  (3) Any of the stocks, funds, or securities in or upon which by any general order, cash under the control of the court may from time to time be invested.

(b) Call in any trust funds invested in any other security and invest them in any of the above securities.

(c) Vary from time to time any such investment for others of a like nature.

Queensland.—The trustees may, unless expressly forbidden by the instrument creating the trust, invest trust funds in the following manner:—

(a) In Parliamentary stocks or Public funds or Government securities of the United Kingdom.

(b) On real or heritable securities in Great Britain or Ireland.

(c) In stock of the Bank of England or the Bank of Ireland.

(d) In securities the interest of which is guaranteed by the Parliament of the United Kingdom or of any of the Australian Colonies or New Zealand.

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*In any State within the Commonwealth a trustee may invest Trust Funds in Commonwealth War Loan.

(e) In the debentures or securities of the Government of any Australian Colony or New Zealand.
(f) On real securities in Queensland.
(g) In any stocks, funds, or securities for the time being authorised for the investment of cash under the control or subject to the order of the Court.
(h) In debentures or other securities charged on the funds or property of any local authority in Queensland.
(i) On deposit in any Government Savings Bank in Queensland.

The trustee may at any time vary such investments.

Victoria.—Unless expressly forbidden by the instrument creating the trust, a trustee may invest in any of the following:—

(a) On first mortgage or real property in Victoria, but the loan must not exceed three fifths of the value as stated in the report of a competent valuer.
(b) In Treasury bonds of the Government of Victoria.
(c) In debentures issued by the Melbourne and Metropolitan Board of Works or the Geelong Harbour Trust Commissioners.
(d) In debentures issued by any city, town, shire, or borough in the Colony of Victoria.

It shall also be lawful for a trustee, authorised by any Act of Parliament or by the instrument creating the trust or by this section to invest in stock (whether inscribed or not), debentures or Treasury bonds of the Government of Victoria or any debentures issued by the Melbourne Harbour Trust Commissioners or the Melbourne and Metropolitan Board of Works, or by any city, town, shire, or borough in Victoria, or by the Geelong Harbour Trust Commissioners or any mortgage bonds or debentures of the Commissioners of Savings Banks, or in any other Victorian Government stock or public securities, to invest in such stock, debentures, or bonds, notwithstanding that the same may be redeemable and that the price paid therefor by such trustee exceeds the redemption value, or if such stock, debentures, or bonds are not redeemable, exceeds the value at par of such stock, debenture, or bonds.

South Australia.—The trustee may, unless expressly forbidden by the instrument creating the trust, invest trust funds in the following manner:—

(a) In South Australian Government securities.
(b) On real securities in the said province.
(c) In any securities guaranteed by the Government or Parliament of the said province.
(d) In the bonds, debentures, or other securities of any municipal corporation in the said province.
(e) On deposit in the Savings Bank of South Australia.
(f) On deposit in any incorporated bank carrying on business in the said province and proclaimed by the Governor in the Government Gazette as a bank in which deposits may be made by trustees.
(g) In any of the Parliamentary stocks or public funds or Government securities of the United Kingdom of Great Britain or Ireland (but see under).
(h) In the Government securities of any British colony or possession (but see under).

[In any State within the Commonwealth a trustee may invest Trust Funds in Commonwealth War Loan.]

The Governor may by proclamation declare that satisfactory arrangements have been made in the United Kingdom or any British Colony or possession to enable trustees in such places to invest in the public securities of South Australia and may revoke such proclamation at any time. No investment shall be made in (g) above save while a proclamation relating to the United Kingdom remains in force. No investment shall be made in (h) above save while a proclamation relating to the British colony or possession remains in force.

Western Australia.—A trustee may invest any trust funds in his hands, whether at the time in a state of investment or not, in the manner following, that is to say:—

- (a) In any of the Parliamentary stocks or public funds or Government securities of the United Kingdom or of the Commonwealth or any of the Australasian Colonies.
- (b) On mortgage of real estate in Westren Australia.
- (c) In debentures or other securities charged on the funds or property of any municipality in Westren Australia.
- (d) On fixed deposit in any incorporated or joint stock bank carrying on business in Western Australia.
- (e) In any security or manner authorised by any Act heretofore in force and not hereby repealed.
- (f) In the debenture or preference stock of any company now or hereafter carrying on business in Western Australia, and certified by notice in the Gazette, signed by the Colonial Treasurer, as a company in the stock of which trustees may invest.
- (g) In any of the stocks, funds or securities for the time being authorised for the investment of cash under the control or subject to the order of the Court, and may also from time to time vary such investment.

The powers conferred above shall be exercised according to the discretion of the trustees, but subject to any consent required by the instrument creating the trust.

Tasmania.—The trustees may, unless expressly forbidden by the instrument creating the trust, invest trust funds in the following manner:—

- (a) In Parliamentary stocks or public funds or Government securities of the United Kingdom.
- (b) On real or heritable securities in Great Britain or Ireland.
- (c) In stock of the Bank of England or the Bank or Ireland.
- (d) In any securities, the interest of which is for the time being guaranteed by the Parliament of the United Kingdom or Tasmania or any of the other Australian Colonies or New Zealand.
- (e) In debentures, stock or securities of the Government of Tasmania or of any of the other Australian Colonies or New Zealand.
- (f) On first mortgage or real estate in Tasmania.
- (g) In any of stock, funds, or securities for the time being authorised for the investment of cash under the control or subject to the order of the Court.
- (h) On fixed deposit at interest in any incorporated bank carrying on business in Tasmania at the commencement of the Act, or if hereafter proclaimed by the Governor in the Gazette as a bank in which deposits may be made by trustees.

[In any State within the Commonwealth a trustee may invest Trust Funds in Commonwealth War Loan.]

(i) On deposit in any State or other Savings Bank carrying on business in Tasmania.
(j) In the debentures or other securities charged on the funds or property of the Hobart Corporation or the Launceston Corporation or of the body corporate of any municipality in Tasmania.

New Zealand.—The trustees may, unless expressly forbidden by the instrument creating the trust, invest trust funds in the following manner:—

(a) In the stocks, funds, or other Government securities of New Zealand or of the Commonwealth of Australia or of any State thereof, or of Fiji.
(b) On real securities in New Zealand.
(c) In the bonds, debentures or other securities of any municipal corporation or county council or Water Supply Board or River Board in New Zealand having authority to borrow money.
(d) On deposit in any bank carrying on business in New Zealand under authority of any Act of the General Assembly or in the Post Office Savings Bank, established under the Post and Telegraph Act, 1908.

The trustees may also, subject as mentioned above, invest trust funds in advance by way of mortgage on security of—

(a) Crown land held on perpetual lease under the Land Act, 1885.
(b) Crown land held on lease in perpetuity under the Land Act, 1892.
(c) Crown land held on renewable lease under the Land Act, 1908.
(d) Native land held on perpetual lease under the West Coast Settlement Reserves Act, 1892.

But not unless—

(1) All conditions as to improvements are complied with, nor
(2) Unless the lessee is entitled to compensation for improvements, nor
(3) For a greater amount than one-third of the estimated value of the lessee's interest in the lease.

Purchase of Investments.—Any expenses incurred in the purchase of an investment, such as brokerage, stamps, transfer fees, &c., are treated as a part of the cost of the investment and will be debited to the account of the asset acquired.

Carrying on a Business.—It may not be out of place to deal briefly with an Executor's position in carrying on the business of a Testator. It should be remembered in the first place, that a business is not an investment authorised by the law, so that, unless the Executor is instructed by the will to carry it on, he should realise as speedily as possible, otherwise he may find himself liable for any losses incurred in trading, &c. He may quite safely carry on the business for a reasonable period awaiting some suitable chance of realisation, but, apart from this, he must realise and withdraw the capital invested therein as soon as possible.

Where, however, the Executor is instructed to carry on the business by the Testator he may do so, but it should not be forgotten that in so doing he must exercise the same

amount of discretion and judgment as the average prudent business man would show in carrying on his own business. If it is apparent that the business can only be carried on at a loss there is no doubt that it is the Executor's duty to realise it as soon as possible, and he should apply to the Court in order to ascertain the proportion in which any loss incurred should be borne by Corpus and Income. If, however, he continues to carry on the business in spite of the fact that it is a losing concern, he may be liable for any losses incurred, although the will authorises him to continue the business. An Executor should not overlook the fact that even in carrying out the terms of the will he must exercise discretion.

Again, in the absence of instructions to the contrary in the will he must not employ more capital in the business than was there at the date of the death of the Testator. If he does and the additional capital is lost he will be liable to make it good. The New Zealand Trustee Act provides, however, that an Executor may bring additional capital into the business provided he first obtains the consent of the Court.

In carrying on the business the Executor is personally liable for all debts which the business incurs whether he is authorised to carry on the business or not, but he has a right of indemnity against the assets utilised in the business.

Executor's or Trustee's Remuneration.—Unless provision is contained in the will for the payment of remuneration to an Executor or Trustee, either by way of a fixed sum or by way of commission on the amount realised and distributed, he is not entitled to anything for his services, but the beneficiaries may agree to allow him remuneration, or the Court may allow to the Executor or Trustee, upon passing his accounts, such commission as it thinks just and reasonable. The Court will not, however, allow him commission if he has already received a legacy under the will as remuneration for his services.

Executorship Expenses.—These will be apportioned between Corpus and Income according to their nature. Those expenses incurred in realising and getting in the property will, of course, be charged to Corpus, and those incurred in collecting the income will be charged against Income.

Repairs to Property.—In the absence of instructions to the contrary in the will, repairs will, generally speaking, be charged against Income, but, where portion of the property is in a dilapidated condition and it is necessary to expend a considerable amount in repairs in order to make it lettable, it is advisable to apply to the Court for instructions as to how the amount expended should be apportioned between Corpus and Income.

INTESTATE ESTATES.—Up to the present very little has been said about the method of dealing with the estate of a person who has died intestate. Under such circumstances the creditors must, of course, be first paid off and the balance of the estate will be distributed according to law. The law as to the distribution of intestate estates amongst the next-of-kin of the deceased varies, and the provisions of the various States are supplied hereunder:—

New South Wales.—In the following the word "husband" can be substituted for "wife," and "widower" for "widow." Where a person dies intestate, leaving a widow, but no issue, his widow is entitled to the first £500, plus interest at the rate of 4 per cent. per annum from the date of death until the date of payment. If the net value of the estate does not amount to £500, the widow receives the whole but if it exceeds £500, the balance, after making the payment above mentioned to the widow, will be divided amongst the next-of-kin as under. It will be noted that where a man leaves children or other issue surviving him, the payment of the first £500 to the widow does not apply, nor does it apply in the case of partial intestacy, the widow only being entitled to the first £500 in the event of total intestacy:—

(1) If a husband dies leaving a wife but no children—the widow receives one-half, and the other half is divided equally amongst the next of kin.
(2) Wife and children—one-third of the whole estate to the widow and two-thirds to the children in equal shares.
(3) Wife and father, but no children—one-half to the widow and one-half to the father.
(4) A wife and mother, but no father, children, brothers or sisters —one-half to the widow and one-half to the mother.
(5) A wife, mother, brothers and sisters, but no children or father —one-half to the widow, and one-half to be divided equally between the mother, brothers and sisters.
(6) A wife, brothers and sisters, but no children, father or mother —one-half to the widow and the remaining half divided equally between the brothers and sisters.
(7) No wife, no children, but a father and mother—the whole of the estate goes to the father.

Queensland.—The word "widower" can be substituted for "widow" and the word "woman" for "man."

Where a man dies intestate, leaving a widow, but no issue, his widow is entitled to the first £500, plus interest at the rate of 4 per cent. per annum from the date of death until the date of payment. If the net value of the estate does not amount to £500, the widow receives the whole, but if it exceeds £500, the balance, after making the payment above mentioned to the widow, will be divided amongst the next-of-kin, as under. It will be noted that, where a man leaves children or other issue surviving him, payment of the first £500 to the widow does not apply:—

When a man dies leaving a widow and no issue and no widowed mother, his estate, if not exceeding £500, goes to the widow absolutely.

Where the estate exceeds £500 the widow takes the first £500 plus her share of the residue, and the residue of the estate will be distributed as under:—

If a man dies leaving a wife and children—one-third of the whole estate to the wife and two-thirds to the children.

If no wife, but children—all to the children.

If a wife but no children—one-half to the wife, and the other half to the next-of-kin.

Victoria.—The estate of every man who shall die intestate after the 31st March, 1896, leaving a widow, but no issue, shall in all cases where the net value does not exceed £1000 belong to the widow absolutely and exclusively. If the estate exceeds £1000, the widow shall have a charge on the assets of the estate to £1000 and interest at 4 per cent. from the date of death to the date of payment.

The above provisions are made without prejudice to her interest and share in the residue of the estate, and any residue after payment of the £1000 is to be divided as under. It will be noted that where a man leaves children surviving him the payment of the first £1000 to the widow does not apply.

If he leaves a wife and children—one-third of the whole estate to the widow and two-thirds to be divided equally amongst the children, or their legal representatives.

If a wife and no children or no legal representatives of such children—one-half to the widow and the balance to be distributed equally to every of the next-of-kin, who are in equal degree or those who legally represent them.

If no widow, but children—the whole will be divided equally amongst the children.

If no widow or children—the whole to the next-of-kin in equal degree.

Note.—An intestate married woman's estate is distributable in the same manner and proportion as an intestate married man's estate with the exception that the husband does not take the first £1000.

South Australia.—The word "widower" can be substituted for "widow" and "woman" for "man."

Where a man dies intestate leaving no issue, and his estate does not exceed £500 in value, the whole goes to the widow absolutely. If his estate exceeds £500, the widow receives the first £500, plus interest at 8 per cent. per annum from the date of death to the date of payment. If he dies leaving widow and children, one-third of the whole estate goes to the widow, and to the children two-thirds.

If he leaves a wife, but no children, one-third goes to the wife and the balance will be distributed amongst the next-of-kin.

West Australia.—The husband or wife shall be entitled on the death of the other as to the property as to which he or she dies intestate to the following shares only:—

(a) Where the net value of the property of the deceased does not exceed £500, to the whole of such property.

(b) Where the net value of the property exceeds £500, to the sum of £500 absolutely, and also to one-half of the residue, where there is no issue surviving, or, where such issue survives, to one-third share of the residue and such issue to the remaining two-thirds, the division among the issue being per stirpes.

Subject to the above the property of such deceased husband or wife shall be divided amongst the next-of-kin.

Tasmania.—The word "widower" can be substituted for "widow" and "wife" for "husband."

In the case of total intestacy, the first £1000 plus 4 per cent. from date of death to the date of payment goes to the widow, and if there are children, one-third of the balance to the widow, and two-thirds to the children, or if no children all to the widow.

In the case of partial intestacy the provision as to the payment of the first £1000 is eliminated, and the estate is then distributed as above with that exception.

New Zealand.—The word "woman" can be substituted for "man" and "widower" for "widow."

If a man dies intestate, leaving a widow but no children, the widow is entitled to receive the first £500, together with interest at the rate of 4 per cent. per annum from date of death to the date of payment, in addition to her share of the residue as provided below:—

(a) If he leaves a wife, but no children, father, mother, brother or sister—the whole to the wife.

(b) If a wife and children—one-third to the widow, and two-thirds to the children. (In this case the widow does not receive the first £500 out of the estate, as there are children.)

(c) If a wife and father, but no children—two-thirds to the wife and one-third to the father.

(d) If a wife and mother, but no children—two-thirds to the wife and one-third to the mother.

(e) If a wife and brothers, sisters, but no children, father or mother —two-thirds to the wife, and one-third to the brothers and sisters.

Accounts of an Executor.—One of an Executor's chief duties is to keep proper accounts, and he must always be ready with these accounts in order to show clearly his administration of the estate. He must in the first place prepare lists of the assets and liabilities of the estate for Probate purposes, and it is necessary for him thereafter to keep a strict and accurate account of his dealings with the assets and show that he has distributed the estate in accordance with the terms of the will. As he is in reality appointed by the Court he must account to it for his dealings, and should file accounts periodically in order to obtain a discharge by the Court.

In New South Wales he must file accounts and a plan of distribution within twelve months after the date when Probate was granted. The accounts for filing at the Court consist of the usual Cash Statement, but the items of Corpus and Income should be shown separately. Where the Executor is carrying on a business for the estate a separate Profit and Loss account should be shown therefor and separate books should be kept in order to show the results of the trading. A description and illustration of the style of accounts which should be kept by an Executor in order to show clearly his dealings with an estate are supplied in the next chapter.

CHAPTER XX.

EXECUTORSHIP ACCOUNTS.

The actual accounts to be kept by an Executor present no difficulties, and do not, as a rule, involve the use of more than three books—Ledger, Cash Book, and Journal.

There is some difference of opinion as to whether it is necessary for an Executor to use a Journal. It is stated that as an Executor is only accountable for the proceeds of the realisation of the estate, a Journal is not necessary, as no entries will be made unless cash is received or paid away. The advocates of this method consider that it is not necessary for an Executor to make any entries in financial books until he either receives or pays away cash, and the various assets possessed by the testator at date of death should be shown only by way of memorandum.

No sufficient reason has yet been put forward why there should be any distinction between the method of keeping the accounts of an Executor and the method of keeping the accounts of an ordinary business. If a business merely kept a record of its cash transactions, it would speedily find itself in difficulties, and, although it is true that an Executor should not make any entries for income or expenditure until he has actually received or paid away the cash, it is clear that there will be numerous transfers from one account to another, and unless a Journal is used, such transfers will involve the necessity of making direct entries in the Ledger, which is a breach of one of the fundamental rules of double-entry book-keeping.

With the exception that no entries should be made for income until it is received there is no reason why Executorship accounts should not be conducted along commercial lines, and it is proposed to deal with the accounts upon that basis. The opening entries in the books will be made through the Journal. A Journal entry will be passed, debiting accounts representing the various assets possessed by the estate at death, and crediting Corpus (or Capital) account. Another entry will be passed debiting the Corpus account with all liabilities at date of death, the corresponding entries being made in accounts representing the various liabilities.

As mentioned in the last chapter, the Corpus account must be credited, not only with the capital value of the assets, but also with any income of an apportionable nature accrued thereon up to date of death, in order to enable the true value of the estate as at date of death to be shown. Similarly, any accrued expenses of an apportionable nature will be debited to Corpus account.

As in the nature of things the corpus of the estate will be distributed by way of legacies and devises the Corpus account will be debited whenever a legacy is paid in cash. Cash account must be credited, or, in the case of a specific legacy, the account of the particular asset handed over will be credited. The effect is to diminish the balance of Corpus account, and this goes on until the whole estate is distributed. If all the legacies are to be paid in cash, it is the Executor's duty to realise the various assets, any profits or losses on realisation of the assets being carried to Corpus account, thus increasing or decreasing its balance.

Perhaps the simplest way to explain the method of keeping the accounts for an estate is by means of an illustration showing the various entries to be passed, and the nature of the accounts to be kept.

EXAMPLE.

Alpha Beta died on the 7th July, 1920, his estate consisting of the following assets:—Leasehold property, valued at £1000; freehold property, valued at £2000; invested in his business, £18,000; furniture, plant, and household effects, £600; cash in house, £20; balance at bank, £350. The liabilities of his private estate amounted to £1000; sundry funeral expenses and the cost of memorial stone, £80; testamentary expenses, £100. Provision was contained in the will for the following legacies and bequests:—

To his wife: £10,000 cash and the residue, if any.

To his son: The freehold property and £3000 in cash.

To his daughter: £3500 in cash.

To his two executors: £100 each in cash.

His leasehold property was let at £100 per annum, the rent being payable on the 7th March and the 7th September in each year.

His freehold property was let at £200 per annum, the rent being payable on the same dates. In each case, therefore, four months' rent had accrued up to date of death. A ground rent of £40 per annum was payable by him in con-

nection with his leasehold property, rent being payable for six months on the 7th March and 7th September. The leasehold, upon realisation, brought £1200; the business property £19,300, and the furniture, etc., £650; the costs of realisation being: Leasehold property, £10; business property, £82; furniture, etc., £1 10s.

Note.—Any apportionment of income may be made in months.

OPENING JOURNAL ENTRIES.

Leasehold Property Account	Dr.	£1,000	
„ accrued rent thereon for 4 months	Dr.	33 6 8	
Freehold Property Account	Dr.	2,000	
„ accrued rent	Dr.	66 13 4	
Business Property Account	Dr.	18,000	
Furniture, Plant, and Household Effects Account	Dr.	600	
Cash at House	Dr.	20	
„ at Bank	Dr.	350	
To Corpus Account	Dr.		£22,070
Corpus Account	Dr.	£1,193 6 8	
To Sundry Creditors Account ..			1,000
„ Ground Rent accrued Account			13 6 8
„ Funeral Expenses, &c., Account			80 0 0
„ Testamentary Expenses Account			100

On posting the above Journal entries the Corpus account would appear as under:—

CORPUS ACCOUNT.

1920.			1920.		
July 7.	To Funeral Expenses, &c.	£80 0 0	July 7.	By Leasehold Property ..	£1,000 0 0
	„ Sundry Creditors, ...	1,000 0 0		„ Accrued Rent	33 6 8
	„ Testamentary Expenses ..	100 0 0		„ Freehold Property ..	2,000 0 0
	„ Ground Rent accrued ..	13 6 8		„ Accrued Rent	66 13 4
	„ Balance ..	20,876 13 4		„ Business Estate ..	18,000 0 0
				„ Household Effects ..	600 0 0
				„ Cash in house	20 0 0
				„ Cash at Bank	350 0 0
		£22,070 0 0			£22,070 0 0
			July 7.	„ Balance ..	£20,876 13 4

At the above stage the Corpus account should be ruled off and the balance brought down, in order to show the value of the property which is available for distribution by way of legacies.

Apportionment.—It will be noted that, in connection with the leasehold and freehold properties, the Corpus account is credited not only with the values of these assets, but with the rent accrued to date of death of the testator. Apart from the fact that the accrued income must be taken into account in valuing the estate for probate purposes, it must be remembered that the Income and the Corpus of a deceased person's estate often belong to different persons. A testator's will may provide, for instance, that the whole of his estate shall be left to his son, subject to a life interest in favor of his widow—i.e., the capital value of the estate will go to the son, but as long as the widow lives the estate must be preserved and the income paid to her. The son will not enjoy possession of his property until after the death of his mother; until that date he is said to have an interest in remainder, and is known as the remainder-man, whilst his mother is known as the life-tenant.

It will also be noticed that the ground-rent accrued up to date of death in connection with the leasehold property has been debited to Corpus account. Income does not begin to accrue until after the date of death, nor are any expenses of a periodical nature chargeable against Income until after date of death.

Accounts of Income-Producing Assets.—In numbers of cases the accounts will have to be kept open during the lifetime of the life-tenant and it is necessary, therefore, to keep these accounts in such a way as to show the income received on the various assets. This is best achieved by providing the Asset accounts with two money columns on each side, headed respectively "Income" and "Corpus." In order to illustrate this, the accounts of the leasehold property and freehold property are shown on the assumption that the estate was not realised until the 30th September, and that the freehold property was handed over to the son on that date. It is also assumed that the rents were received and the ground-rent paid on the due dates.

FREEHOLD PROPERTY ACCOUNT.

1920.		Income.	Corpus.	1920.		Income.	Corpus.
July 7.	To Corpus A/c.		£2,000 0 0	Sep. 7.	By Cash Rent	£33 6 8	£66 13 4
	do.		66 13 4				

LEASEHOLD PROPERTY ACCOUNT.

		Income.	Corpus.			Income.	Corpus.
July 7.	To Corpus A/c.		£1,000 0 0	Sep. 7.	By Cash	£16 13 4	£33 6 8
	do.		33 6 8				

It will be seen that Freehold Property account is debited, in the Corpus column, with the capital value of the asset at date of death, and also with the rent accrued. When the rent (£100) is received on the 7th September the amount will be apportioned and credited in the proper proportions in the two money columns. The effect will be a reduction in the balance of the Corpus column to £2000, and this will show the true position, for the Executor will then be holding on account of corpus a property worth £2000 and £66 13s. 4d. in cash. The Income column will show a credit balance of £33 6s. 8d., and, as the income accrued on a specific legacy or devise after the date of death goes to the legatee or devisee, this amount will, after it has been transferred to the Income account, be handed over to the son. In connection with the leasehold property, the proportion of the rent accrued after death will be transferred to the Income account, and in this case, as there is no life tenant and the widow is residuary legatee, she will receive this amount, less the ground-rent accrued since death, which will, of course, be debited to Income account.

Final Distribution.—Assuming that all the debts have been paid, and the whole of the property (except the freehold) realised by the 30th September, the various legacies will be paid over to the legatees, and the freehold property handed over to the son. When this is completed, the Corpus account, carried on from the point at which it was last shown, would appear as under:—

CORPUS ACCOUNT (Continued)

1920.		1920	
Sep. 30.		July 17.	
To Devise of Freehold property to son..	£2,000	By Balance..	£20,876 13 4
„ Legacy to son ..	3,000	„ Profit on Realn. of Leasehold	190
„ „ „ widow	10,000	„ Profit on Realn. of Business property	1,218
„ „ „ daughter	3,500	„ Profit on Realn. of Household Effects	46 10 0
„ Legacy to 1st executor..	100		
„ Legacy to 2nd executor..	100		
„ Residuary legacy to widow	3,633 3 4		
	£22,333 3 4		£22,323 3 4

After the transfer of the freehold property had been made to the son, the assets accounts would appear as under:—

FREEHOLD PROPERTY ACCOUNT.

	Income.	Corpus.		Income.	Corpus.
July 7.			Sep. 7.		
To Corpus A/c.		£2,000 0 0	By Cash	£33 6 8	£66 13 4
„ do. rent accrued		£66 13 4	Sep. 30.		
Sep. 30.			By Corpus A/c. t'fer to son ..		2,000 0 0
To Income A/c.	£33 6 8				
	£33 6 8	£2,066 13 4		£33 6 8	£2,066 13 4

LEASEHOLD PROPERTY ACCOUNT.

July 7.	To Corpus A/c.		£1000	Sep. 7.	By Cash	£16 13 4	£33 6 8
	„ do. rent accrued ..		33 6 8	Sep. 30.	By Cash (proceeds of realn.)		1,200
Sep. 30.	To Income A/c.	£16 13 4					
	„ Cash, Expenses of realn.		10				
	„ Corpus A/c. profit on realn.		190				
		£16 13 4	£1,233 6 8			£16 13 4	£1,233 6 8

BUSINESS PROPERTY ACCOUNT.

July 7.	To Corpus A/c...	£18,000	Sep. 30.	By Cash	£19,300
Sep. 30.	To Cash, Expenses of Realn.) ..	82			
	„ Corpus A/c. Profit on Realn.	1,218			
		£19,300			£19,300

FURNITURE, PLATE, AND HOUSEHOLD EFFECTS ACCOUNT.

July 7.	To Corpus A/c.	£600	Sep. 30.	By Cash	£650 0 0
Sep. 30.	„ Cash Expenses of Realn. ..	1 10 0			
	„ Corpus A/c. (Profit on Realn.) ..	48 10 0			
		£650 0 0			£650 0 0

INCOME ACCOUNT.

Sep. 7.	To Ground Rent..	£6 13 4	Sep. 30.	By Freehold Property A/c. ..	£33 6 8
Sep. 30.	„ Son (Income on property devised to him) ..	33 6 8		„ Leasehold Property A/c. ..	16 13 4
	„ Widow (residuary legatee)	10 0 0			
		£50 0 0			£50 0 0

Cash Account.—Special care should be taken in keeping the Cash account of the estate, as a copy of this account, together with the vouchers supporting the items, has to be filed by the Executor on passing his accounts. Care should be taken to distinguish Corpus and Income, and this is done by providing money columns for the dissection of receipts and payments under those headings. The Cash account in connection with the estate of Alpha Beta would appear as shown in the example herewith.

CASH ACCOUNT.

Dr. RECEIPTS

Date.		Particulars.	Income.	Corpus.	Bank.
1920.					
July 7	To	Balance (Estate a/c)		£370 0 0	370 0 0
Sep. 7	„	Rent of Freehold	£33 6 8	66 13 4	100 0 0
	„	Rent of Leasehold..	16 13 4	33 6 8	50 0 0
	„	Proceeds, Sale of			
		Leasehold		1,200 0 0	1,200 0 0
		Bus. Estate		19,300 0 0	19,300 0 0
		Effects		650 0 0	650 0 0
			£50 0 0	£21,620 0 0	£21,670 0 0

PAYMENTS. Cr.

Date.		Particulars.	Income.	Corpus.	Bank.
1920.					
July 31	By	Funeral Expenses		£80 0 0	£80 0 0
	„	Testamentary Expenses		100 0 0	100 0 0
	„	Sundry Creditors		1,000 0 0	1,000 0 0
Sep 7	„	Landlord—			
		Ground Rent	£6 13 4	13 6 8	20 0 0
30	„	Expenses Sale			
		Leasehold		10 0 0	10 0 0
		Bus. Estate		82 0 0	82 0 0
		Effects		1 10 0	1 10 0
	„	Legacies—			
		Widow		10,000 0 0	10,000 0 0
		Son		3,000 0 0	3,000 0 0
		Daughter		3,500 0 0	3,500 0 0
		1st Exec.		100 0 0	100 0 0
		2nd Exec.		100 0 0	100 0 0
	„	Income on Freehold to Son	33 6 8		33 6 8
	„	Residuary Legacy—Widow	10 0 0	3,633 3 4	3,643 3 4
			£50 0 0	£21,620 0 0	£21,670 0 0

In addition to the accounts shown above, it would be necessary to open accounts in connection with the various liabilities, but as these will take the ordinary form it has not been thought necessary to include them. Probate duty has been omitted, and the apportionment as between Corpus and Income has been made in months.

Stocks and Shares.—Where a portion of the testator's estate consists of stocks or shares, it is usual to send a list of these to a broker to fill in the valuations. These valuations will be given at the market quotation of the stock or shares at the date of death, and unless otherwise stated, the quotation will be cum div. Where two quotations are given, the shares, etc., must be valued at the lower, plus one-fourth of the difference between the lower and the higher rates. Where the quotation includes accrued dividend on the stock or shares the Corpus account must not be credited separately with accrued income on the investments, as, in such a case, the income would be included in that account twice.

If, for example, a testator's estate included 300 shares in the Australian Insurance Co., quoted at 110s. at date of death (the 31st March), these shares would be stated in Corpus account at £1650, representing the capital value of such shares plus the income accrued to that date. On the 1st October a dividend of 5s. per share was paid on the shares for the year ending the 31st August. The dividend, when received, must be apportioned, and, making the apportionment in months for the sake of simplicity, it will be found that £43 15s. had accrued prior to the date of decease, and £31 5s. after that date. The shares account would appear in the books as under:—

SHARES IN AUSTRALIAN INSURANCE COMPANY ACCOUNT.

		Income.	Corpus.			Income.	Corpus.
Mar. 31	To Corpus A/c.		£1,650 0 0	Oct. 1	By Cash	££31 5 0	£43 15 0

The effect of the above entries is to reduce the balance in the Corpus column of the Shares account to the real capital value of the shares as at date of death (exclusive of the accrued income), and the Executor will now hold the shares at that value, plus £43 15s. in cash, which represents the amount of the dividend accrued to date of death.

Accrued Interest, Dividends, etc.—When an Executor or Trustee is balancing off his accounts for purposes of making up a statement, he should not take into account any accrued income. It is true that accrued income must be taken into account in preparing the accounts as at date of death, but this is necessary in order to enable a true valuation of the estate to be arrived at for probate purposes. On all other occasions, however, he should only include in his accounts such income as he has actually received in cash.

Death of a Life-Tenant.—It was pointed out in the preceding chapter that an apportionment of income is made upon the cessation of the interest of a life-tenant, by death or otherwise. Where a life-tenant dies, such income as had accrued up to the date of his death belongs to his estate, and must be paid over to his Executors, whilst that portion which has accrued after his death will be dealt with according to the terms of the will of the original testator. The Executor of the original testator will not, however, make any entries in his books in connection with this accrued income until the full income has actually been received by him, when he will hand over the portion accrued up to the death of the life-tenant to his representatives. The following example sets out the method of treating such payments:—

EXAMPLE.—The income of the estate of J. N. consisted of interest on £16,000 of 4 per cent. Government stock, due January 1st, April 1st, July 1st, and October 1st, and interest on loan of £5,000 on mortgage at 4 per cent. payable February 1st, May 1st, August 1st, and November 1st.

Testator's wife, who was entitled to the income during her life, died on June 1st, 1919. The interest, etc., due 1st May, 1919, and prior to that date had been received and paid to the testator's wife.

The income after her death was divisible between three children equally. Make up the Income account for the year ended January 31st, 1920, and show how the income was disposed of, assuming that all income had been received as it fell due, and that a division was made on that date.

INCOME ACCOUNT.

FOR YEAR ENDED 31st JANUARY, 1920.

Dr.		Cr.	
1919.		1919.	
June 1. To Cash (Widow)	£260 0 0	Feb. 1. By Interest on Loan	£50 0 0
		April 1 ,, ,, Stock	160 0 0
		May 1 ,, ,, Loan	50 0 0
	£260 0 0		£260 0 0
July 1. To Widow's Estate:— 2 months' Interest on Stock	£106 13 4	July 1 By Interest on Stock	£160 0 0
Aug. 1. ,, 1 month's Interest on Loan	16 13 4	Aug. 1 ,, ,, Loan	50 0 0
		Oct. 1 ,, ,, Stock	160 0 0
		Nov. 1 ,, ,, Loan	50 0 0
1920.		1920.	
Jan. 31 ,, Balance down	456 13 4	Jan. 1 ,, ,, Stock	160 0 0
	£580 0 0		£580 0 0
1920.		1920.	
Jan. 31 To Cash (Child 1)	£152 4 6	Jan. 31 By Balance	£456 13 4
,, ,, (Child 2)	152 4 5		
,, ,, (Child 3)	152 4 5		
	£456 13 4		£456 13 4

Abatement of Legacies.—The following example shows the abatement amongst the general legatees where there is not sufficient in the estate to pay all the general legacies in full. It will be noted that the two demonstrative legacies to the testator's two sons have been paid in full, as demonstrative legatees are entitled, where the fund remains, to be paid in full before the general legatees receive anything.

EXAMPLE.—Flackman, by will, appoints Gledall and Haines his Executors. He leaves no real estate. His personal estate realises £7350. The funeral expenses were £45; executorship expenses £45; and his debts amounted to £850. He leaves bequests of £50 each to his Executors for services. To his two sons, his deposits of £2000 each in the National Discount Co. and General Credit and Discount Co. To his three daughters £1000 each. To his three brothers £100 each.

Make up a statement showing how the estate should be distributed.

CASH ACCOUNT.

Dr.			Cr.
To Realisation of Assets	£7 350	By Funeral Expenses	£45
		,, Executors' Expenses ..	45
		,, Sundry Creditors	850
		,, Balance down	6,410
	£7,350		£7,350
To Balance	£6,410	By Demonstrative Legacies—	
		Son "A"	£2,000
		Son "B"	2,000
		,, Balance down	2,410
	£6,410		£6 410

				Amt. of		
To Balance	£2,410	By General Legacies—		Legacy.	Rate. s. d.	
		Executors— Gledall		£50	14/2	£35 9 0
		Haines		50	,,	35 9 0
		Daughters:	"A"	1,000	,,	708 16 4
		,,	"B"	1,000	,,	708 16 4
		,,	"C"	1,000	,,	708 16 4
		Brothers:	"A"	100	,,	70 17 8
		,,	"B"	100	,,	70 17 8
		,,	"C"	100	,,	70 17 8
	£2,410			£3,400		£2,410 0 0

Annuities.—Where a testator has settled a regular income on a person for life, this annuity may be paid out of the regular income of the estate, or the Executors may purchase an annuity from an insurance or other company. If the annuity is to be paid out of the income of the estate it will, of course, be necessary to retain sufficient income-bear-

ing assets in the estate to produce the required amount, and this will result in the Executors' or Trustees' duties running on until the death of the annuitant. It is more usual under such circumstances, especially if the annuitant is a young man likely to live for a number of years, to purchase an annuity by paying a lump sum therefor. In such case the cost of the annuity would be treated in all respects as a general legacy and will be charged against Corpus account.

Commonwealth Estate Duties.

Under the Commonwealth Estate Duties Assessment Act, 1914, provision is made for the imposition of estate duty on the real and personal property forming part of the estate of deceased persons.

The estate of a deceased person comprises:—

(a) His real property in Australia (including real property over which he had a general power of appointment, exercised by his will);

(b) His personal property, wherever situate (including personal property over which he had a general power of appointment, exercised by his will), if the deceased was, at the time of his death, domiciled in Australia; and

(c) His personal property in Australia (including personal property over which he had a general power of appointment, exercised by his will), including all debts, money, and choses in action receivable or recoverable by the administrator in Australia, if the deceased had, at the time of his death, a foreign domicile.

Property:—

(a) Which passed from the deceased person by any gift inter vivos or settlement made before or after the commencement of the Act within one year before his decease, or, being property comprised in a settlement under which he was tenant for life, the interest of which was surrendered by him to the remaindermen within one year before his decease; or

(b) In which he had a beneficial interest at the time of his decease, which beneficial interest, by virtue of a settlement or agreement made by him, passed or accrued on or after his decease to, or devolved on or after his decease upon, any other person, shall, for the purposes of the Act, be deemed to be part of the estate of the person so deceased.

Every administrator (this term includes Executor), is required to make a return to the Federal Taxation Department on a prescribed form setting out a full and complete statement of the estate of the deceased in Australia. This statement must provide full descriptions and values of items included in the estate, and the administrator must also provide a statement in detail of all the debts and other charges upon the estate, distinguishing between the secured and unsecured debts, and describing the value of any security for such debts. The administrator must include as one of these debts or charges against the estate the amount of probate duty payable to the State in which the probate duty is chargeable.

No estate duty is payable in respect of so much of the estate as is devised or bequeathed or as passes by gift inter vivos, or settlement for religious, scientific, charitable or public educational purposes.

Further, if the deceased was, at the time of his death, not domiciled in Australia, the debts which may be deducted from the gross value of the assessable estate shall be debts due and owing to persons resident in Australia or contracted to be paid in Australia or charged on property situate in Australia.

From the point of view of an executor or administrator, the chief distinction between the procedure in relation to the duty payable under the Commonwealth and the State laws is that in the case of the former (which we are now considering), the estate duty payable has, in the absence of any instructions to the contrary by the Testator, to be apportioned between the various legatees under the will in proportion to the value of their interests. It should be noted, however, that this does not apply to any beneficiary whose bequest or devise does not exceed £200 in value, and that in the case of the interests of the widow or children or grandchildren of the deceased, their share of the duty shall be reckoned at two thirds of their assessed value.

In the case of State probate duty this is payable primarily out of the residuary estate, and should this be insufficient to provide the amount necessary for probate duty, the legacies must abate in the order already explained.

Subject to the abovementioned provisions (as for example where a testator specifically excludes the operation of that section of the Act which requires the estate duty to be borne by the beneficiaries) the duty as assessed under the Act shall be payable out of the personal estate. If there is not sufficient personal estate to pay the duty the administrator may raise the deficiency by way of mortgage secured upon the real estate, or may apply to the High Court or the Supreme Court for the sale of the whole or any portion of the estate for the purpose of enabling him to pay the duty.

CHAPTER XXI.

INSURANCE COMPANIES' ACCOUNTS.

It is not possible in a general work of this nature to give more than a very general outline of the accounts required to be kept by an Insurance Company, especially in view of the fact that in no two offices will the system be identical, although it will be found that the underlying principles remain the same. The vast variety of risks which may now be made the subject of insurance necessarily involves corresponding variations in the details required by the accounts, but it is proposed to adopt as the basis of the explanations supplied the accounts of a Life Insurance company, noting from time to time where alterations might be met with in accounts relating to other classes of insurance.

A number of the books kept by Insurance offices might be classed under the heading of statistical books, but as these have a more or less direct relation to the financial books it is advisable to deal with these also.

Proposals.—The basis of the entries in connection with each policy issued is the proposal form received from the person desirous of insuring his life or property. A record is kept of each proposal received by means of a Card Register, a card showing the name, policy number (when issued), premium, etc., etc., being prepared for each proposal as it is received. The cards are arranged in alphabetical order, and serve in this way as an alphabetical index to all proposals made to the office, whether completed or otherwise.

Premiums.—The main income of an Insurance company is from the premiums received on the policies issued or risks undertaken by the company. For statistical purposes the company requires to keep a separate record of the first premiums received on new policies issued and such premiums are shown separately in the Revenue account referred to later. A record of all new policies issued, together with the amounts of the premium payable, is made in the New Business Register, which is ruled in the following form:—

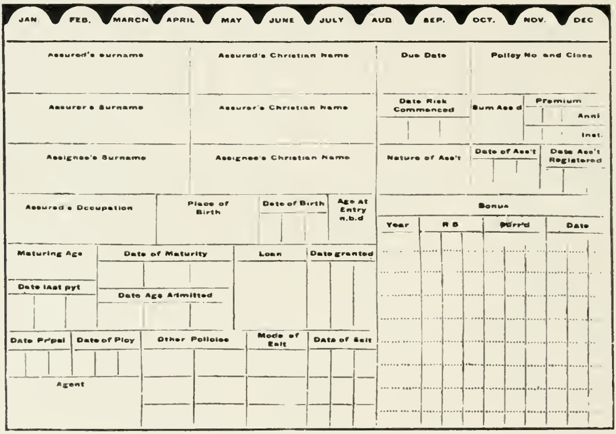
In most companies a considerable proportion of the business is obtained through agents, and the company must, therefore, keep an accurate and full record of the business as between itself and its agents, in order to enable a proper check to be obtained upon the amount of commission payable and to ensure that any future communications with such

NEW BUSINESS REGISTER.

Policy Nº	Name of Assured	Age		TABLE	How Payable	Date Risk Commenced	Particulars of Various Tables		Total of all Tables		Date 1st Premium Paid	Initials of Directors and Secretary	Remarks
		True	Assumed				Sum Assured	Amount of Premium	Sum Assured	Amount of Premium			

policy holders will be made through such agents. In those companies which run a number of different departments, such as fire, accident, burglary, etc., the columns in the New Business Register illustrated herein, to contain particulars of the sums assured under the various tables, could be utilised for the different departments.

Where a policy is issued a card will be made out for the policy holder containing the particulars shown in the illustration supplied herewith. If his premium is payable yearly, all the tabs along the top of the card, save the one showing the month in which his premium is to be paid, will be clipped off. If the premium is payable, say quarterly, four tabs will be left standing on the card.



Each month the Card Register of policy holders will be gone through and renewal notices and receipts prepared therefrom, the tabs on the cards enabling the premiums due during the month to be ascertained without difficulty.

The total of the premiums due, as ascertained from this Card Register, will be passed through the Journal as under:

Head Office Premiums Account	Dr.	£	
Agency Premiums Account	Dr.	£	
To First Premiums Account			£
„ Renewal Premiums Account			£

Provision is made in the Cash Book for a dissection of the amounts received, and, at the end of each month, the Head Office Premiums account, or Agency Premiums account, will be credited with the cash received either direct or through the agencies, as the case may be.

Where premiums remain unpaid for a certain period after the expiration of the days of grace provided for, the following entry will be passed:—

Overdue Premiums Account	Dr.	£	
To Head Office Premiums Account			£
„ Agency Premiums Account			£

Any cash received during the month on account of overdue premiums will be credited to Overdue Premiums account at the end of the month, or, if the policies lapse altogether, the following Journal entry will be passed:—

First Premiums Account	Dr.	£	
Renewal Premiums Account	Dr.	£	
To Overdue Premiums Account			£

At the end of each financial period the First Premiums and Renewal Premiums accounts will be transferred to Revenue account.

Agents' Accounts.—A separate Ledger or set of Ledgers will be required to record the accounts of the agents through whom business is transacted. For the Agents' Ledger an adjustment account will be kept in the General Ledger, and conducted along the same lines as a Sales Ledger Adjustment account in an ordinary trading concern. It will be noticed in the specimen Cash Book, supplied herewith, that a column is introduced on the debit side, in order to enable the total cash received from agents during the month to be ascertained, and the total so arrived at will be posted to the credit of Agency Premiums account.

Investments.—A considerable proportion of the assets of an Insurance company will consist of investments in some form or other. These investments are numerous, and a separate Investment Ledger or Ledgers will be used to record these assets, an Adjustment account being kept in the General Ledger therefor. In this connection the use of the investment columns on both sides of the Cash Book will be readily understood. With regard to the interest on investments it is usual to keep a separate Interest Journal, in which an entry is passed for interest on the various investments as they become due, the total being credited to Interest account.

Loans on Policies.—This class of business applies exclusively to Life Insurance companies, which frequently arrange to advance money to policy holders against the surrender value of their policies. A separate Ledger or set of Ledgers is kept to record such accounts, and the usual adjustment account will be kept in the General Ledger therefor. Interest will be charged on these loans through the Interest Journal periodically.

Claims.—Up to the present consideration has been confined to the income of an Insurance company, and it re-

mains now to deal with the procedure where it becomes necessary for the company to meet claims made by policy holders under the insurance effected by them. Where the circumstances under which a payment under the policy becomes due have arisen, it is necessary for the assured to make a claim on the prescribed form against the company, and these claims are entered as received in a Claims Register, full particulars being shown of the policy, etc., and the amount claimed. Columns are also provided to show the "fate" of the claim when dealt with by the company. It is from this Register that particulars of the item. "Claims Admitted but not Paid," shown amongst the Liabilities of an Insurance company are obtained.

Re-insurances.—It is not advisable that an Insurance company—and Fire Insurance companies are referred to here more particularly—should carry too much risk in any one locality, or in any particular premises, and arrangements are therefore made with other companies to accept part of the risk taken, a portion of the premiums received being paid over to such companies in consideration therefor. This is known as re-insurance.

Annuities.—Life Insurance companies frequently undertake, upon receipt of a fixed sum, the payment of an annual amount to a specified person. The working of an annuity is exactly opposite to that of a life policy payable to a person upon his attaining a certain age. In the latter case an annual payment is made by the assured to the company, which will, on attainment of the specified age, pay him a lump sum. In the case of an annuity, however, a lump sum is paid to the Insurance company, and the company undertakes to pay the person, on whose behalf the payment is being made, an annual amount for the remainder of his life. Included amongst the income of an Insurance company will be seen the item "Consideration received for annuities," and amongst the expenditure the item, "Annuities paid."

Surrenders.—In most companies, where a policy has been in force for several years, it is possible for the person whose life is insured and who is unable to keep up the payment of his premiums, to obtain from the company in cash the surrender value of his policy. The surrender value of any particular policy is ascertained by the company's actuary.

Bonuses.—One of the great inducements to a person to take up a life policy is the fact that the profits, or a portion of the profits, are divided amongst the policy holders each year by way of bonus. Most policy holders prefer to have the bonuses added to the amount of their policies, as, in this way, a higher rate of bonus is received. A policy holder's bonus may be withdrawn in cash if he so desires.

General Expenses.—It is not thought necessary to explain the treatment of these, as such expenses would receive

similar treatment to those of any other large business concern.

General Cash Book.—The accompanying illustration shows a form of Cash Book suitable for the Ordinary department of a Life Insurance company. In companies which undertake a number of different classes of risks it is usual to have subsidiary Cash Books, the totals of which are carried into the general Cash Book daily, as it would hardly be possible to obtain a sufficient dissection of the items of receipts and payments if only one book were used.

A perusal of the headings of the various columns shown in the illustration will enable the foregoing explanations to be followed to greater advantage, and will indicate the nature of the transactions likely to arise in the class of company dealt with.

Revenue Account.—In all of the States of the Commonwealth (with the exception of New South Wales), and in New Zealand, Life Insurance companies are required by legislation to supply certain information in the form supplied in the schedules attached to the Acts. Although no particular form of accounts is necessary in New South Wales, the companies in that State follow the forms required by the other States, so that, for all practical purposes, the same method of showing the accounts of such companies is in vogue throughout Australasia.

In preparing the Revenue accounts of an Insurance company the same adjustments for accruing income and expenditure are made as in the case of a commercial concern, but an exception must be made (and Life Insurance companies are referred to here especially) with regard to the premiums received by the company from policy holders. Although these premiums are paid in advance, no adjustment of the amounts received throughout the year is made, as payments are considered to be due when they are payable. In the same way no adjustment is made of the amounts received as consideration for annuities. In an ordinary commercial concern the proportion of the premiums received, relating to the period after the close of the financial year, would be carried forward to the new period, appearing in the Balance-Sheet under a heading such as "Premiums paid in advance." This, as already explained, is not done in the case of a Life Insurance company.

The Revenue account of such a company does not purport to show the net revenue for the year nor the net profit of the company on its year's transactions. It is best viewed as a kind of "pool," the net result of the transactions for the year being added to the accumulated funds. This will be seen by reference to the specimen statements shown at the

INSURANCE CO.S CASH BOOK.

Dr.

Date	Particulars	Rec No.	Led. Fol.	Renewal Premiums			New Premiums	Guarantees	Consideratn for Annuities	Agents	Repaymts by Policy-Holders	Investments Realised	Interest and Dividends	Rents	Sundries	Total	BANK
				This Month	Last Month	Other Mths											

Cr.

Date	Particulars	Cheq No.	Led. Fol.	General Expenses	Commission	Annuities	Claims Paid	Advances to Policy-Holders	Surrenders	Bonuses	Returned Premiums	Re-Insurances	Investments	BANK

end of this chapter. It will also be noticed that in the Revenue account the income and expenditure are shown on the reverse sides from those on which they usually appear, this being due to the fact that the companies follow the statutory form prescribed. The Revenue account is opened by a transfer of the accumulated funds as they stood at the beginning of the year. To these funds are added the items of income during the year and, on the other side, the expenses are deducted, the balance of the account then showing the accumulated funds at the end of the year.

In the case of Fire, Accident and other companies accepting risks of a like nature, some attempt is made at carrying forward a proportion of the premiums. It would not, of course, be practicable to calculate the proportion of each premium to be carried to the next year, but the companies know from experience that, if they carry forward a certain percentage of the total premium income for the year, this will adjust the premiums closely enough for all practical purposes. This percentage usually ranges from about 33 to 40 per cent. of the premium income.

Balance-Sheet.—A careful study of the attached statements, representing the general Revenue account and Balance-Sheet of the A.M.P. Society, will make clear the nature of the transactions of the Ordinary department of a Life Insurance company.

It should be noted that, generally speaking, the annual accounts of a Life Insurance company are merely temporary statements, and do not show much more than the details of the accretions to the accumulated funds during the year. The real Balance-Sheet, showing the company's exact position (called a "Valuation" Balance-Sheet), is prepared periodically at intervals from three to five years, and from these statements the profit is found, practically on a single entry basis.

Where a Valuation Balance-Sheet is to be prepared on a given date an estimate is made by the company's actuary of the amount of the company's policy liabilities at that date, due allowance being made for the fact that each policy is renewed to a date ahead in the next financial year. Such liabilities are reduced to their present valuations, the basis being the expectancy of life in each case. The difference between the total liabilities, so ascertained, and the amount of the accumulated funds is the company's surplus or profit, and it is this surplus which is divided amongst the policy holders by way of bonus. It might be mentioned in passing that whilst most companies prepare Valuation Balance-Sheets at intervals of from three to five years, the A.M.P. Society prepares such a statement at the close of each financial period.

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REVENUE ACCOUNT

OF THE

Australian Mutual Provident Society

(ORDINARY DEPARTMENT)

From 1st January to 31st December, 1911.

	£	s.	d.	£	s.	d.
Amount of Funds on 1st January, 1911				26,979,864	6	10
Renewal Premiums	2,100,235	19	8			
New Premiums (after deduction of Re-Assurance Premiums) on 21,783 New Policies assuring £6,219,979, and yielding an Annual Revenue of £197,800 17s 1d., after deduction of Re-Assurances, together with instalments of first year's Premiums on Policies issued in 1910	208,629	0	1			
Consideration for Annuities granted	98,950	6	7			
Interest	1,241,816	4	4			
Fines and Fees	343	6	4			
Surplus on Sales of Foreclosed Properties, etc.	24,192	11	8			
Profit on Reversions, etc	172	4	10			
Claims Investment Account	1,864	8	0			
Total Revenue for the year 1911				3,676,104	12	4
				£29,655,968	19	2

	£	s.	d.	£	s.	d.
Claims under Policies—						
Sums Assured	612,379	6	1			
Bonuses	261,752	14	0			
				874,132	0	1
Endowments and Endowment Assurances Matured—						
Sums Assured	513,704	0	0			
Bonuses	201,911	16	0			
				715,676	16	0
Claims Investment Account Maturities				229	12	0
Allowance under By-law VI.				96	7	7
Surrenders—						
Payments to Members (Policies)	112,141	13	6			
,, ,, (Bonuses)	37,065	6	0			
To repay Advances on Policies Lapsed (Policies)	81,427	6	3			
,, ,, (Bonuses)	46,680	11	2			
				276,914	17	11
Annuities				67,141	4	8
Bonuses paid in Cash				62,516	3	1
Commission—on New Premiums	61,054	10	4			
,, on Renewals	3,423	13	9			
				64,478	4	1
Expenses of Management—						
Salaries	101,039	4	8			
Directors' and Branch Directors' Fees	8,225	0	0			
Auditors' Fees	1,807	13	9			
Medical Fees and Expenses	20,864	8	4			
Legal Expenses	367	13	1			
Office Rent	11,417	13	6			
Advertising	5,510	10	3			
Printing and Stationery	9,009	16	2			
Postage Stamps	6,334	14	1			
General Expenses	16,020	17	6			
Travelling Expenses	1,380	19	9			
Exchange	1,840	15	9			
				169,246	8	0
Taxes—						
Federal Land Tax	3,728	10	4			
N. S. Wales Income Tax	3,612	1	2			
,, Stamp Duty	34	19	5			
Victoria Income Tax	5,617	0	0			
,, Land Tax	159	16	4			
,, Stamp Duty	47	2	2			
N. Zealand License Fee	200	0	0			
,, Income Tax	4,399	2	1			
,, Land Tax	10,039	10	9			
,, Stamp Duty	34	8	2			
S. Australia Public Trustees' Fee	30	0	0			
,, Income Tax	3,149	6	10			
,, Land Tax	60	0	4			
,, License Fee	891	0	0			
,, Stamp Duty	48	2	9			
Queensland Income Tax	2,801	5	0			
,, Stamp Duty	830	0	5			
Tasmania Income Tax	865	0	0			
,, Property Tax	100	19	3			
,, Stamp Duty	98	11	9			
W. Australia Government Tax	30	0	0			
,, Income Tax	741	4	8			
,, Land Tax	93	12	6			
,, Stamp Duty	118	10	10			
London Stamp Duty	191	7	11			
	38,531	18	1			
Less Refund Income Tax, London	65	0	7			
				38,476	16	6
Additional Reserve for possible depreciation of Securities				8,643	18	10
Cost of Special Actuarial Investigation				1,733	5	6
Bonus to Officers and Agents				8,100	10	8
Written off Office Premises				12,356	7	2
Written off Foreclosed Properties, etc.				1,722	11	7
Amount of Funds on 31st December, 1911				26,324,391	9	9
				£29,655,968	19	2

BALANCE SHEET

OF THE

Australian Mutual Provident Society

On the 31st December, 1911.

LIABILITIES.

	£	s.	d.	£	s.	d.
Assurance Funds, participating	27,500,127	9	1			
Non-participating Fund ..	812,116	12	8			
Claims Investment Fund ..	12,147	8	0			
Industrial Department Funds	166,176	2	8			
Total Funds as per Revenue Accounts ..				28,490,567	12	5
Fidelity Guarantee Fund, Ordinary Department				400	0	0
Reserve for possible Depreciation of Securities				35,030	18	10
Claims admitted or announced but not paid ..	264,038	6	2			
Annuities due	Nil.					
Outstanding Accounts ..	57,298	11	6			
				321,338	17	7
				£28,848,335	8	10

ASSETS.

	£	s.	d.	£	s.	d.
Loans on Mortgage—						
Principal Sums	11,521,336	1	2			
Interest in arrear ..	1,899	9	10			
Interest due and in the days of grace	6,319	19	8			
				11,528,655	10	8
Loans on the Security of Municipal and other Rates				4,037,021	6	1
Loans on Reversionary and Life Interests ..				69,403	0	7
Loans on the Society's Policies, with accrued Interest (including Premiums advanced to keep Policies in force) within the Surrender Value				4,828,341	9	10
Loans on Government Securities				2,060	0	0
Government Securities—						
British Consols	66,191	12	5			
New South Wales ..	1,607,707	7	7			
Victoria	1,055,395	7	4			
New Zealand	1,212,787	11	6			
Queensland	686,370	12	9			
South Australia	1,077,176	6	4			
Tasmania	354,873	7	5			
West Australia	469,446	11	2			
Canada	28,359	8	4			
				6,696,408	3	10
Office Premises—						
New South Wales ..	153,313	19	6			
Victoria	84,000	0	0			
New Zealand	104,000	0	0			
Queensland	48,630	0	0			
South Australia	28,000	0	0			
Tasmania	31,391	8	0			
West Australia	37,500	0	0			
				486,835	7	6
Properties acquired by Foreclosure				162,876	3	9
Office Furniture, Head Office and Branches ..				Nil.		
Sundry Debtors				28,301	18	8
Reversionary Interests				13,562	0	7
Premiums in the days of grace	257,816	17	2			
Overdue Premiums ..	27,914	2	7			
				285,730	19	9
Accrued Interest				282,650	3	7
Cash on Deposit with Banks and Balance of Current Account with the Society's Bankers (Head Office and Branches)				537,902	2	6
Cash in hand				897	2	7
				£28,848,335	8	10

RICHARD TEECE, *General Manager.* H. W. APPERLY, *Secretary.*

We, the undersigned, hereby certify that we have examined the Books, Vouchers, Accounts, Mortgage Deeds, Public and other Securities of the AUSTRALIAN MUTUAL PROVIDENT SOCIETY, *in accordance with By-Law XXIX., and compared them with the Balance Sheet, and find them all to be correct.*

T. F. H. MACKENZIE, }
WILLIAM H. PERRY } *Auditors.*

SYDNEY, *3rd April,* 1912.

CHAPTER XXII.

STATION ACCOUNTS.

The suggestion has been received from several quarters that a chapter on Station accounts should be included herein and, although the bookkeeping possesses no inherent difficulties, it is thought that a brief description of the outstanding features of such accounts may be of benefit to the accountant who is called upon to keep or supervise the keeping of station books. Anyone who has followed intelligently the general principles of accountancy up to this stage of the book should have no difficulty in grasping the requirements of such accounts from the following summary.

Generally speaking, the following books will be necessary to enable a proper record to be kept of the transactions most usual upon a station:—

BOOKS OF ACCOUNT.—Journal, Stores Purchases Book, Stores Day Book, Ration Book, Bills Receivable Book, Cash Book, Petty Cash Book, Personal Ledger, Stores Ledger, General or Private Ledger.

BOOKS OF RECORD.—Stock Book, Wool Press Book, Diary and Tally Book.

Journal.—The Journal is used, as in the case of an ordinary business, to contain a record of any transactions which cannot properly be put through any of the sub-journals, and it is not thought necessary to give any description of its uses here.

Stores Purchases Book.—On some stations the use of a Purchases Book is dispensed with altogether, all purchases being recorded through the Journal. This will often be found a rather laborious method of recording such transactions and, on a station of any size, more especially where a dissection of purchases is necessary, a Purchases Book for the stores will be found almost indispensable. It is often desired to keep separate stores accounts for various classes of material, such as fencing material, shearing material, etc., and the book should be tabulated in order to enable the necessary dissection of the various invoices to be effected at the time each entry is made.

The items in this book will be posted to the credit of the respective personal accounts of the vendors in the Personal Ledger and the monthly totals of the dissection columns will be debited respectively to the General Stores account, Fencing Material account, etc., etc.

It is usual to record any purchases of sheep, cattle, and horses through the Journal, as such transactions are infrequent and it is not necessary to make special provision therefor in the Purchases Book.

Stores Day Book.—This book contains a daily record of all goods issued from the store. An exception to this will be made in the case of stores issued as rations, which matter is dealt with under the next heading. All goods issued to employees, contractors and others should be initialled for by the recipients, unless paid for at the time of the sale. A small book should be used for the purpose of entering goods sold for cash, the daily total of such book being carried to the debit side of the Cash Book under the heading of cash sales of stores. The various items in the Stores Day Book will be posted regularly to the debit of the personal accounts of the recipients in the Personal Ledger (or the Stores Ledger, where such is kept) and the monthly total of the Day Book will be posted to the credit of the Stores account.

In cases where subsidiary Stores accounts are kept, such as Fencing Material account, etc., it will be found necessary to provide columns therefor in the Stores Day Book, in order to enable a progressive dissection of the stores issued to be made without difficulty. Save under exceptional circumstances it will prove simpler, and just as effective, to keep the one Stores account for all stores received and issued. It might be mentioned that all stores supplied to employees, except in those cases where the stores are issued as rations, will be sold at a profit to cover the cost of handling, etc.

Ration Book.—It is advisable to have this book specially ruled, so as to allow the quantity, not the value, of each commodity issued for rations to be recorded at the time of issue. Stores supplied to employees who ration themselves are not, of course, recorded in the Ration Book, but are dealt with as sales and charged through the Stores Day Book in the manner mentioned under the previous heading. All stores issued as rations to station employees, the expense of which must be borne by the station, should be put through the Ration Book.

Each page is designed to contain a record of a complete month's issue, separate columns being provided for such

stores as are most frequently handled, and, on the last day of the month, each column is added and the total quantity of the particular commodity can be then ascertained. A "Sundries" column will be included to cover stores for which a special column is not supplied. The cost price per cwt., lb., etc., including the cost of carriage, should be entered at the foot of each column and the total value computed and recorded in the same column, the "Sundries" column being dissected and treated similarly. In this way the necessity for calculating the cost price of each item of stores issued, often of very trivial value, is eliminated, as is also the danger of inadvertently putting through individual items at selling price.

The totals so ascertained will then be charged through the Journal to the various Expenses accounts affected, the grand total being credited to Stores account. The important point to note in connection with the record of rations issued is that these must not be charged at more than cost, this including the invoice price, plus the cost of landing the goods on the station.

Bills Receivable Book.—This book will be entered up in the usual manner, and no special mention of its uses is, therefore, necessary.

Cash Book and Petty Cash Book.—These books will, of course, follow the lines of the ordinary books of a similar nature, and it is not necessary to deal with them specially here. The Cash Book should be tabulated so as to facilitate the ascertainment of the totals of the various classes of expenses.

Personal Ledger.—In this Ledger will be opened an account for each person with whom business is transacted, and there will be included therein the names of practically the whole of the employees on the station. It is quite usual for employees to allow the greater portion of their wages to accumulate from month to month, and to obtain from the station bookkeeper just so much money as they may require for current expenses. Their accounts will, therefore, be credited periodically with the amount of wages due to them respectively, and the drawings against these wages will, of course, be debited from the Cash Book.

In cases where the employees are required to ration themselves, any goods supplied will be debited to the respective accounts through the Stores Day Book. The same position arises where any persons are performing work on the

station under contract. Any advances to the contractors will be charged to their personal accounts and, when the work is completed, the various Expenses accounts will be debited and the contractor credited with the agreed amount. Accounts will also be opened herein (preferably in a separate portion of the Ledger) for persons to whom stock of any description is sold or from whom stock, etc., is purchased.

Stores Ledger.—It is the practice, on some stations, to keep a Stores Ledger, which is usually nothing more than an interim Ledger to receive the debit entries of the personal accounts kept for employees. This saves the necess ty of posting a tremendous number of details to the accounts in the Personal Ledger. It is quite possible that many of the employees will be applying to the store for goods of small value several times during each day and, if these items had to be posted separately to the accounts in the Personal Ledger, this book would require to be of unwieldy dimensions. Accounts for the employees are, therefore, opened in the Stores Ledger, details entered therein, and a transfer of the totals of the debit entries in such accounts are made each month to the corresponding accounts in the Personal Ledger.

General or Private Ledger.—This book will also be conducted upon ordinary lines, but the following list of accounts will, perhaps, enable a fair idea to be formed of the headings under which the transactions on an average station might be classified:—

Assessment Account
Adjustment Account
Agistment Account
Bills Receivable Account
Bills Payable Account
Carriage of Stores Account
Cattle Account
Cash Account
Capital Account
Conditional Purchase Account
C. P. Instalments Account
Dairying Account
Depreciation Account
Droving Account
Farming Account
Horse Account.
Horse-feed Account
Insurance Account
Improvements Account
Land Account
Miscellaneous Expenses Account
Owner's Private Account
Plant Account
Rations Account
Rabbit and Vermin Destruction Account
Repairs to Plant Account
" " Buildings Account
" " Fences Account
" " Dams & Tanks Account
" " Wells Account
Rent Account
Stores Account
Shearing Expenses Account
Shearers' Deposits Account
Sheep Account
Station Cultivation Account
Salt Account
Wages Account
Wheat Account
Wool Account
Wool Carriage Account
Wool Scouring Account

The nature of the entries to be made in the above accounts is, in most cases, fairly obvious, but a brief explana-

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tion may be desirable in connection with those mentioned hereunder:—

Assessment.—This account will include all rates and taxes payable by the station, and also special assessments, such as might be levied by the Pastures Board.

Cattle, Sheep, and Horses.—A separate account will be opened for each of these, the account being debited in the first place with the value of the stock on hand at a certain rate. The market value of stock is, of course, subject to considerable fluctuation, but it is the practice amongst the majority of stations to value the stock on a fixed basis, the basis depending upon the particular ideas of each station as to the average value of the stock. In any case it is advisable to be on the safe side and fix the valuation, if anything, on the low side. The Stock account will be debited with any purchases of stock and the cost of droving to the station. Sales of stock will be credited to the respective Stock accounts, any expenses incurred in connection with the sale being charged against such accounts.

At the end of the financial period, upon the ascertainment of the numbers of the various classes of stock, the Stock accounts will be credited and the balance carried to Profit and Loss account. The value of the stock on hand will be brought down in the Stock accounts. To state the matter briefly, these Stock accounts are conducted along the lines of the old-fashioned Goods account of a merchant's business.

Conditional Purchase.—This is the term used to denote the tenure upon which certain lands are held from the Crown, the arrangement being that when the holder has paid, by annual instalments, the agreed amount, the land becomes vested in him. In the event of the lessee failing to keep up his payments, these instalments will be treated purely as rent, and the property will revert to the Crown. It is understood that land is obtainable in each of the States under somewhat similar conditions, although the name applied to the tenure varies.

The instalments as paid should be debited to Conditional Purchase Instalments account. It is clear that such payments are partly capital and partly revenue, and the annual payment should, therefore, be separated, the portion applicable to capital being transferred to Conditional Purchase account, and the balance, representing interest, to the debit of Interest account. When the payment of instalments is completed the balance of Conditional Purchase account will be transferred to Land account.

Depreciation.—This should be provided at ample rates upon the whole of the assets of a wasting nature. Machinery should be depreciated on the reducing instalment system at the rate of at least 10 per cent. per annum. With regard to plant, the larger items such as carts, drays, and agricultural implements, could be treated on the same basis as machinery, but smaller items might be grouped under a Loose Plant account, the original cost being capitalised and the cost of maintaining them charged to revenue, no depreciation being provided for. The cost of dams and wells, which will include overhead gear, should be written off over, say, ten years, and fencing should be provided for on the same lines.

Plant.—It is advisable to divide this under various headings, so as to show, for example, Shearing Plant, Rabbit Destruction Plant, etc. In this way the amount of depreciation to be charged against the respective Expenses accounts can be more readily ascertained, and, as the rate of depreciation on the various classes of plant may vary, this method will prove advantageous.

Rabbit and Vermin Destruction.—This account should be charged with all wages or bonuses earned by and rations (if found by the station) issued to rabbiters, and also with any stores issued, such as poison, pollard, etc. The cost of rabbit-proof netting should not, however, be charged to this account, but to Fencing account, and the upkeep of fencing should be charged to repairs.

Plant purchased for the purposes of rabbit destruction will be charged to Plant account, and the depreciation of such plant will, at the end of the financial period, be charged against Rabbit Destruction account.

Repairs.—The cost of repairs to plant, buildings, fences, etc., will be ascertained partly from the Stores Day Book, which will show the materials issued in connection with the repairs, and, further, by a dissection of the Wages Book showing the work upon which the various employees have been engaged. Such accounts will be transferred to the debit of Profit and Loss account at the end of the financial period.

On some stations it is the practice to charge the cost of all repairs and renewals to the asset accounts, an amount being written off at the end of the financial period to cover the cost of depreciation and a proportion of the repairs. This is, of course, wrong in principle. If it is desired to spread the cost of repairs so as to charge, as closely as possible, an

even amount against each year, a Repairs Reserve account should be opened and conducted along the lines explained in Chapter III., dealing with "Depreciation."

Rent.—This account will be charged with all rents paid, whether for Crown or private leases, but any instalment paid to the Crown on conditional purchases leases should be charged to a separate account, as already explained.

It is advisable to carry agistment fees (receivable or payable) to a separate account, and not include such items with the rent.

Shearing Expenses.—These include all expenses incurred in connection with shearing, such as the earnings of shearers, musterers, rouseabouts, wool-classer, wool-presser, etc., and also rations provided by the station for any of these employees. They will also include any materials supplied by the stores, such as wool-packs, tar, twine, firewood, etc.

The cost of supplying parts for the replenishment or the repair of shearing machinery or other plant used in connection with shearing will be debited to this account, and it is quite common, also, to charge as shearing expenses depreciation on the shearing plant, instead of debiting the amount to General Depreciation account.

Shearers' Deposits.—The deposits paid by the shearers as a guarantee that they will keep their engagements will be credited to this account. Any deposit which has been forfeited by reason of the failure of the depositor to fulfil his engagement may be transferred to Doubtful Debts Reserve, or, if thought fit, to the credit of Profit and Loss account. Upon the due fulfilment of engagements transfers will be made from the Deposit account to the personal accounts of the shearers.

Wool.—This account will be credited with the net proceeds as shown by the account sales received from the brokers in the city, the balance being transferred to Profit and Loss account at the end of the financial period.

When wool is sent to a city broker for sale on behalf of the station it is not customary to make any entry in the financial books in respect of such despatch until the account sales is received from the broker showing the net proceeds realised. On the despatch of a consignment of wool, full particulars of the wool, showing the class, quantities, weight,

etc., are entered in the Way-bill Book. The slips from this book are prepared in triplicate, one being handed to the carrier, another despatched to the broker, and the third copy retained in the book. As returns are received from brokers showing the sales of the various consignments despatched, the triplicate way-bills retained in the book are marked off in order to ensure that none of the consignment is overlooked.

It will be necessary, where balance day occurs before complete returns are received from the broker for the wool despatched to him, to make an estimate of the value of such wool, in order to enable it to be brought into the financial books. This estimate should be made on a conservative basis.

Stock Book.—Some stations keep an elaborate record of the stock running on the station, the stock being divided up under numerous headings. For example, sheep will be divided into the various classes, such as Merinos, Lincolns, etc., subdivided into rams, ewes, wethers, etc., and further subdivided into the various ages in each class. A separate page will be kept for each division.

A more usual course is to keep a Stock Book in which is entered the tally of the sheep as ascertained at shearing time, the sheep in this case being divided under various headings, such as rams, ewes, wethers, etc., and, after lambing, the number of lambs will be ascertained at the time of lamb-marking. Additions of the number of lambs and of any purchases of sheep will be made to the stock as ascertained at shearing time, and a deduction made for any sales. From the result so ascertained there will be deducted the sheep killed for rations, and, also, a percentage, based on previous experience and the state of the season, for deaths. The result will give a very close estimate of the sheep on the station at balancing period.

More care should be exercised in the stock records of cattle and horses, as these are not tallied with the same regularity as sheep. Periodically cattle and horses are rounded up and a tally made of the numbers and classes. For stock-taking purposes, additions must be made to these tallies for purchases, and deductions made for rations, sales, and a percentage for losses by death.

As already indicated, it is the custom to include the stock in the financial books at a fixed valuation per head.

Wool Press Book.—As the wool is cut from the sheeps' backs it is classed by the wool-classer. Each class of wool is kept separate, baled up and marked accordingly. The Wool Press Book is used for the purpose of keeping a record of the number of bales filled, and the class of the wool contained therein.

Diary.—This is, of course, necessary in most business concerns, and a diary is particularly useful on a station to keep a record of the dates when the various rents fall due, etc.

Tally Book.—This is a record kept in the sheds of the number of sheep shorn by each shearer during the day. From this book is ascertained the amount earned by him, and he is credited periodically with the amount so ascertained, Shearing Expenses account being debited.

The following is the Balance Sheet and Profit and Loss account of a Station company carrying on business in several States :—

THE BLANK STATION COMPANY, LIMITED.

BALANCE SHEET at 30th September, 1920.

LIABILITIES.

	£	s.	d.
Capital—35,000 Shares of £1 each, issued as fully paid	£35,000	0	0
4% Mortgage Debentures (plus accrued interest)	12,103	10	11
Bank	207	4	10
Crown Rents accrued at date	87	4	9
Sundry Creditors, including employees	2,467	6	3
	£49,865	6	9

ASSETS

	£	s.	d.	£	s.	d.
Station Properties, viz.:—						
Leases in South Australia current to 1949	£17,100	0	0			
Queensland lease, current to 1931	2,143	0	0			
	£19,243	0	0			
Less—Written off for twelve months to date to provide for expiry of leases	589	0	0			
				£18,654	0	0
Sheep, Cattle, and Horses				7,906	0	0
Working Plant				328	16	0
Improvements				545	0	0
Stores, Wire and Unused Material				1,071	13	8
Wool Clip, 1920, balance not yet realised, estimated value				150	0	0
Cash on hand at Station				15	14	4
Sundry Debtors				9	10	6
Balance, per Profit and Loss Account				21,184	12	3
				£49,865	6	9

PROFIT AND LOSS ACCOUNT for 12 Months ending 30th September, 1920.

Dr.

To Charges		£29 12 11
" Working Expenses, viz.:—		
Management, Wages and Rations	£2,696 11 0	
Station Expenses and Sundries	306 19 10	
		3,003 10 10
" Interest		1,350 5 5
" Rent		505 0 10
" Stations Account (for amount written off for the year to provide for the expiry of Leases in South Australia and Queensland)		589 0 0
" Improvements (for proportion written off for 12 months to date at 10 per cent.)		60 0 0
" Net Profit for year		1,044 4 9
		£6,581 14 9
To Balance brought forward		£22,228 17 0
		£22,228 17 0

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By Wool Clip Account:—			
Amount of surplus over estimate in re 1919 clip		£104 11 2	
" Proceeds of 1920 clip, totalling 365 bales (partly estimated) after deducting cost of shearing, carriage, scouring, etc.		3,682 7 1	
			£3,786 18 3
" Stores Account		..	80 14 6
" Agistment Fees		..	80 0 0
" Stock Account—For Value of Stock on Stations at 30th Sept., 1920, viz.—19,956 Sheep at 5/, 916 Cattle at 25/, 443 Horses at 80/		7,906 0 0	
Deduct—			
Value of Stock at 30th Sept., 1919, viz., 15,718 Sheep, 728 Cattle, 406 Horses	£6,476 0 0		
Less—			
Sales of 1075 Sheep, 56 Cattle and Sundries	1,204 2 0		
		5,271 18 0	
			2,634 2 0
			£6,581 14 9
By Net Profit for year			1,044 4 9
" Balance carried forward			21,184 12 3
			£22,228 17 0

CHAPTER XXIII.

COMPANY ACCOUNTS.—(Continued.)

REDUCTION OF CAPITAL.

Speaking generally, when a company has once registered its Memorandum of Association this is unalterable, but the Companies Acts provide for certain specific exceptions to this general rule, and included in the exceptions are provisions enabling a company to alter the amount of its capital upon the fulfilment of certain conditions. A company may, for example, increase its capital provided it is authorised to do so by its Articles of Association. If the Articles as originally framed do not enable the company to do this they can be altered by passing a special resolution, and, as already mentioned, a copy of any special resolution must be filed with the Registrar of Companies within fifteen days after the resolution has been confirmed, and must be included in every copy of the Articles issued thereafter.

Similarly the Companies Acts of the various States now provide that a company may, if authorised to do so by its Articles of Association, reduce its capital by passing a special resolution. If the Articles as originally framed do not give the company authority to reduce its capital it will be necessary in the first place to pass a special resolution making the required alteration in the Articles and, when this has been done, the company must then pass another special resolution authorising the reduction.

A special resolution is one passed by a three-fourths majority of those members present personally or by proxy at a meeting duly convened, notice of intention to propose the resolution having been given, and confirmed at a subsequent meeting held not sooner than fourteen days and not later than one month after the date of the first meeting.

The capital of a company may be reduced in various ways, and the method adopted will depend upon the reasons why the reduction is desired. The capital may be reduced merely for the purpose of cancelling unissued shares. The reason for such reduction is not so apparent in New South

Wales as it is in, say, New Zealand, where companies must pay an annual license fee of 1/- per cent. on the registered capital. Where the company has unissued shares which are apparently greatly in excess of its actual requirements it is advisable to reduce the capital in order to cancel these shares for the purpose of saving a proportion of the tax. Such reduction merely requires the passing of a special resolution.

Any reduction of capital other than the cancellation of unissued shares must, before it is put into effect by the company, be confirmed by the Court. A company may reduce its capital for the following purposes:—

(a) To cancel any capital which has been lost or which is not represented by assets.

(b) To return to the shareholders any capital in excess of the wants of the company.

(c) To reduce the liability of the members on their shares.

Where a company has passed a special resolution to reduce its capital for the purposes mentioned in (b) or (c) above, it must thereupon add the words "and reduced" to its name, and these words will in reality form part of the name of the company until such time as the Court thinks fit. The reason for the addition of these words to the name of the company is that notice may be given to all creditors and other persons having dealings with the company of the fact that the company is applying to the Court to authorise a reduction of capital.

Any reduction which involves either the return of cash to shareholders or the reduction of the liability of members on their shares will diminish the funds to which the creditors have a right to look for satisfaction of their claims. It is only reasonable therefore that creditors and other persons having dealings with the company should be given every opportunity of finding out that the company proposes to reduce its capital in the manner mentioned.

In the case of (a) the company need not add the words "and reduced" to its name prior to its application to the Court to confirm the resolution, and the Court may dispense with the use of the words altogether. It will be seen that a reduction of this nature will not affect the rights of creditors, as the capital has already been lost and the reduction is merely for the purpose of recognising this fact in a practical

way by reducing the book values of the assets, or by writing off an adverse balance in Profit and Loss account. It does not, in any way, diminish the funds to which the creditors have the right to look for payment of their claims.

The reason for a reduction of the class now being considered will be apparent. A company may have suffered a large loss upon realisation of some fixed assets, or the value of such fixed assets as freehold property may have reduced to considerably less than the figures at which they are stated in the books, and it may be desired to have them written down to something approaching their real value.

Again, a company may have been running for a number of years at a heavy loss, and, having turned the corner, it would probably take a considerable time to wipe out the debit balance in Profit and Loss account by subsequent profits. As capital equalling this amount has actually been lost it is apparent that any profits subsequently made will be earned by the diminished capital and, in order that shareholders will not be required to wait an unreasonable time before a dividend is received, these losses may be written off against capital. It is, of course, apparent that in order to do this the nominal value of the shares must also be reduced.

When an application is made to the Court to confirm the reduction, if such reduction is for the purpose mentioned in either (b) or (c) above, the Court will settle a list of creditors and will require due notice of the application to be sent to these creditors. It will also fix a date before which the creditors, if they object to the reduction, must state their objections to the Court. If any creditors object the Court may require the company either to pay the claims of such creditors or secure the payment of the amount to its satisfaction. The Court may also require the company to publish its reasons for the reduction.

Where practicable it is always desirable for a company desiring to reduce its capital in the manner mentioned in (b) or (c) above, to discharge all outside liabilities before making the application to the Court as this will greatly simplify the proceedings. In the case of (a) above, the creditors are not, of course, entitled to object to the reduction and the discharge of outside liabilities will not affect the application one way or the other.

When the Court has sanctioned the reduction, the order of the Court, together with a minute approved by the Court

showing the particulars of the capital as it is reduced, must be filed with the Registrar of Companies and a copy of the minute must be included in every copy of the Memorandum of Association issued thereafter in lieu of the original statement of the capital of the company.

It is now fairly settled that, subject to the right of creditors to object to any reduction which will affect their rights, the Court has jurisdiction to sanction any reduction of capital which is fair as between the various classes of shareholders. If the Court is satisfied that, with regard to the interests of those members of the public who may be induced to take shares in the company such interests are duly protected and that, with regard to the different classes of shareholders, the reduction is fair and equitable, there will be no difficulty in obtaining its consent (Poole v. National Bank of China). If, however, the reduction involves any injustice to creditors or to a minority of the members of the company the Court will, of course, refuse to confirm the resolution.

If the company has preference as well as ordinary shareholders the preference shares are not exempt from the liability to be reduced even although the reduction will cause the preference shareholders to receive a lower rate of dividend than was payable on the capital originally paid in by them, but where, however, the preference shares have a preferential claim on the capital of the company in the event of winding up the reduction should fall only upon the ordinary and deferred shares. The exact effect of the reduction as between the various classes of shareholders is, of course, a matter for arrangement and compromise between themselves, but it should be remembered that the Court will not assent to a reduction which will inflict an injustice upon a minority.

Entries in the Books on Reduction.—The exact entries to be passed in the books of a company, after the procedure already referred to has been gone through, will depend upon the nature of the reduction, and it is thought that the most effective way to make the entries to be passed under the various forms of reduction clear, is to supply examples. The following figures will be used to illustrate the entries given hereunder:—

Nominal Capital in Shares of £1 each	£30,000
Less Unallotted Shares	10,000
Subscribed Capital	20,000
Less Uncalled Capital (10/ per share)	10,000
Paid-up Capital (10/ per share)	£10,000

(a) Cancelling Unissued Shares.—Assuming that the directors of the above company are satisfied that they will never require to issue the unallotted shares shown and that the company has passed the necessary resolution to cancel these shares, the only entry required is a reversal of the original opening entry in so far as it affects these 10,000 shares.

Nominal Capital A/c .. .. Dr.	£10,000	
To Unallotted Shares A/c.		£10,000

The Capital accounts in the Balance Sheet would then appear as under:—

Nominal Capital (fully subscribed)	£20,000
Less Uncalled Capital	10,000
Paid-up Capital	£10,000

(b) Returning Surplus Capital to Shareholders.—Where the amount of capital received from the shareholders proves to be in excess of the company's actual requirements, the most sensible course is to return such surplus to the shareholders in cash in order to enable them to utilise it to advantage. As has already been shown, such a reduction of capital will require the consent of the creditors and of the Court.

Assuming, therefore, that the company finds it cannot operate on so large a scale as was originally intended, and that it decides to return one-half of the paid-up capital, equalling 5s. per share, to the shareholders, the effect will be that the shares which were originally of the nominal value of £1 each will be reduced to 15s. per share. As the amounts of unallotted shares and uncalled capital are deducted from nominal capital it is clear that, if the amount of the nominal capital is reduced, this will involve a reduction in the final amount shown above, which is, of course, the paid-up capital.

The reduction will in this case only affect the shares which have been subscribed for, but it is usual and advisable, when reducing the subscribed shares, to reduce also the nominal value of any unallotted shares in order to keep them on an equal footing. Assuming that it has been decided to do this, the whole of the shares with which the company was registered will be reduced by 5/- per share. The proportion written off the unissued shares must of course be taken out of Unallotted Shares account, reducing the balance of that account to its proper figure, and the proportion written off the 20,000 issued shares will be returned in cash to the shareholders.

The following journal entries would be required to give effect to the decision of the shareholders:—

Nominal Capital Account	Dr.	£2,500	
To Unallotted Shares A/c.			£2,500
Being 5/ per share written off the unissued shares reducing them to the nominal value of 15/ per share in accordance with Resolution of shareholders, etc.			
Nominal Capital A/c.	Dr.	£5,000	
To Distribution A/c.			£5,000
Being 5/ per share written off the issued shares, reducing the paid-up capital, to be returned in cash to the shareholders in accordance with Resolution, etc.			
Distribution A/c.	Dr.	£5,000	
To Cash A/c.			£5,000
Being distribution of cash amongst the shareholders entitled thereto.			

After this reduction had taken place the Capital accounts of the company would appear as under:—

Nominal Capital 30,000 shares of 15/ each	£22,500
Less Unallotted Shares, 10,000 of 15/ each ..	7,500
Subscribed Capital	15,000
Less Uncalled Capital, 10/ per share	10,000
Paid-up Capital, 5/ per share	£5,000

(c) Writing Off Lost Paid-Up Capital.—Assume now that the capital is as originally stated and that, instead of the paid-up capital being represented by assets amounting to £10,000, these assets total only £8,000, whilst £2,000 appears on the assets side as a debit balance in Profit and Loss account. It is evident that the company has lost the sum of £2,000 which has been entrusted to it for the purposes of trading and that the actual capital now in the business amounts to only £8,000.

In the case of a sole trader this loss of £2,000 would be transferred to the debit of his Capital account and his capital reduced to that extent, but in the case of a limited company the capital cannot be written down in this manner without first obtaining the consent of the Court. The company now being considered has, however, obtained this consent and has passed a special resolution that the capital be written down so as to wipe out the debit balance in Profit and Loss account.

It is clear that the loss which has been incurred has been a loss of the paid-up capital and, in order to enable this loss

to be written off, it is the paid-up capital which must be reduced. It is advisable, however, where a company is writing down its paid-up capital, if such a company has also unissued shares, to reduce the nominal value of such shares in the books in order to keep the whole of the shares uniform. It is, of course, not necessary that this should be done, and it is a matter for the company to decide when passing the resolution authorising the reduction. The entries to be passed under both methods will be shown.

Assuming, in the first place, that it has been decided to reduce only the paid-up capital, i.e., to write down only the subscribed shares, it will be necessary to write 2s. per share off the 20,000 issued shares, thus reducing the nominal capital to £28,000, made up of 10,000 shares of £1 each and 20,000 shares of 18s. each. In order to effect this the following Journal entry would be passed:—

Nominal Capital A/c. .. .. Dr.	£2,000	
To Profit and Loss A/c.		£2,000
Being the amount equalling 2/ per share written off the paid-up portion of the 20,000 issued shares in accordance with Resolution.		

A statement of the capital after the above entry had been passed would then appear as under:—

Nominal Capital (10,000 shares of £1 each and 20,000 shares of 18/ each)	£28,000
Less Unallotted Shares (10,000 shares of £1 each)	10,000
Subscribed Capital (20,000 shares of 18/ each) ..	18,000
Less Uncalled Capital (10/ per share)	10,000
Paid-up Capital (8/ per share on 20,000 shares) ..	£8,000

It will be seen from the above that the capital is now reduced to the value of the assets which the company at present possesses. It will also be noted that any reduction of the amount of nominal capital which does not also reduce the unissued and the uncalled capital must result in a diminution of the paid-up capital, as the unissued shares and the uncalled capital are deducted from the amount of the nominal capital. Where only the paid-up capital is reduced all that is required is a debit to Nominal Capital account and a credit to Profit and Loss account, and this automatically reduces the amount of paid-up capital shown in the Balance Sheet.

Assuming now that the company had decided, for the sake of uniformity, to reduce the whole of the shares both

issued and unissued to 18s. per share, the Journal entry to give effect thereto would have appeared as under:—

Nominal Capital A/c.	Dr.	£3,000	
To Unallotted Shares A/c.			£1,000
„ Profit and Loss A/c.			2,000
Reducing the value of the whole of the shares from £1 to 18/ per share by writing off 2/ per share from the nominal capital.			

If this were stated in the same manner as the capital above the paid-up capital would still show at £8000 because although the nominal capital is reduced to £27,000, the unallotted shares are also reduced by £1000, and this leaves the subscribed and paid-up capitals at the same figures.

(d) Reducing the Uncalled Capital.—Assume now that in addition to writing down the paid-up capital and the unissued shares, it has been decided to reduce the liability of the shareholders on their shares as a kind of compensation for the reduction of the paid-up capital. Such a proposal is sometimes included in the resolution by the directors in order to get the shareholders to agree more readily to the reduction of the paid-up capital. Any of the creditors will, of course, be entitled to object to this portion of the proposal, and this is a matter which should not be overlooked in passing the resolution where it is impracticable to pay off all creditors before applying to the Court for its approval of the reductions. Assume again that the capital of the company is as it was originally stated and that the resolution passed was to the following effect:—

(a) That the paid-up capital be reduced by 2s. per share.

(b) That the uncalled capital be reduced by 2s. per share (these reductions amounting in all to 4s. per share on the subscribed capital).

(c) That the unissued shares be reduced by 4s. per share to keep them uniform with the issued shares.

The Journal entry necessary to effect the above reduction would be as under:—

Nominal Capital A/c.	Dr.	£6,000	
To Unallotted Shares A/c.			£2,000
„ Uncalled Capital A/c. .. .			2,000
„ Profit and Loss A/c.			2,000
Reducing the 10,000 unissued shares of £1 each to shares of 16/ each; and also 20,000 issued shares to shares of 16/ each by writing off 2/ per share from the paid-up capital and 2/ per share from the uncalled capital			

After passing the above entries a statement of the capital would then appear as under:—

Nominal Capital (30,000 shares of 16/ each)	£24,000
Less Unallotted Shares (10,000 shares at 16/ each)	8,000
Subscribed Capital (20,000 shares at 16/ each)	16,000
Less Uncalled Capital (8/ per share)	8,000
Paid-up Capital	8,000

It will have been noticed that the only class of reduction which will help to reduce a balance in Profit and Loss account is a reduction of the paid-up capital. Uncalled capital is only reduced to benefit the shareholders and the unissued shares are reduced for the purpose of keeping the nominal value of the shares uniform throughout.

The Companies Act provides that the paid-up capital of a company may be reduced either with or without extinguishing or reducing the liability, if any, remaining on the shares of the company and to the extent to which such liability is not extinguished or reduced it shall be deemed to be preserved. This means, in other words, that if a company passes a resolution merely to reduce its paid-up capital this does not mean that a corresponding amount is to be written off the uncalled capital. This must not be done unless the resolution specifically provides therefor and the consent of the creditors and the Court is obtained thereto.

A company cannot legally reduce its capital by either direct or indirect means without obtaining the consent of the Court. For example, it has been decided in Trevor v. Whitworth that a company cannot purchase its own shares, as this in reality involves a reduction of its capital, and this is so even although the company's articles authorise such a purchase. It has already been seen, when dealing with depreciation, that a company may in effect, by ignoring depreciation, be returning its capital to shareholders by way of dividends, but, apparently, in the words of Lord Justice Lindley: "This is not such a return as is prohibited by the Companies Acts." Exactly why such a sharp distinction is made between, say, a return of surplus capital to shareholders in a lump sum and a return of capital by way of dividends, due to the omission to provide for depreciation, it is difficult to fathom.

EXAMPLE:

The following was the Balance Sheet of the Herculean Manufacturing Company on 31/12/20:—

BALANCE-SHEET.

LIABILITIES.			ASSETS.	
Nominal Capital 100,000 shares of £1 each	£100,000		Freehold Premises .. .. .. (at cost)	£15,000
Less Unallotted Shares 20,000 shares of £1 each..	20,000		Plant & Machinery .. .. (at cost)	20,000
Subscribed Capital..	80,000		Sundry Debtors	10,000
Less Uncalled Capital	40,000		Profit & Loss Balance ..	14,000
Capital Called Up ..	40,000			
Less Calls in arrears	200			
		£39,800		
Debentures		10,000		
Sundry Liabilities		9,200		
		£59,000		£59,000

The freehold property, although standing in the books at £15,000, was really worth £12,500, while the present value of the plant, etc., was £18,000.

At this date the Company in General Meeting passed the following Special Resolutions:—

(1) To write down the Freehold Property and Plant and Machinery to their real values respectively.

(2) To write off £1600 of the debts as bad.

(3) To write off 5/- per share from the Paid-up Capital.

(4) To reduce the liability of the shareholders in respect of Uncalled Capital by 5/- per share.

(5) To cancel the whole of the shares which have not been allotted.

The necessary consent of the Court was duly obtained.

Show the Journal entries necessary to effect the above mentioned transactions, and set out the Balance Sheet in full after the reduction.

1920.			
Dec. 31—Profit and Loss A/c.	Dr.	£6,100	
To Freehold Premises A/c.			£2,500
„ Plant and Machinery A/c.			2,000
„ Sundry Debtors A/c. ..			1,600
Nominal Capital A/c.	Dr.	£20,000	
To Unallotted Shares A/c. ..			20,000
Cancelling Unissued Shares.			
Nominal Capital A/c.	Dr.	£40,000	
To Uncalled Capital A/c. ..			£20,000
„ Profit and Loss A/c. ..			20,000
Writing off 5/ per share from Paid-up Capital and 5/ per share from Uncalled Capital.			

BALANCE SHEET (after reduction).

LIABILITIES.			ASSETS.		
Nominal Capital ..	£40,000		Premises	£15,000	
Less Uncalled Capital	20,000		Less written off ..	2,500	
					£12,500
Called-up	20,000		Plant & Machinery	20,000	
Less Calls in Arrears	200		Less written off ..	2,000	
					18,000
		£19,800	Sundry Debtors ..	10,000	
			Less written off ..	1,600	
Debentures		10,000			8,400
Sundry Liabilities		9,200	Profit & Loss A/c.		100
		£39,000			£39,000

EXAMPLE:

The New South Wales Soap and Candle Coy., Ltd., whose trial Balance on 31/12/20 appears below, had been carrying on at a loss for some time. At last the tide turned, and the Company passed a Special Resolution to wipe off the loss accumulated by reducing the Capital as follows:—

(a) The share denomination of the Ordinary shareholders to be reduced from £5 to £3, the shares to be treated as paid up to £2 per share.

(b) The sum of 5/- per share to be written off the 6 per cent. Preference shares.

(c) The whole of the 4 per cent. Preference shares both issued and unallotted to be reduced to shares of £3 each.

The consent of the Court was duly obtained.

The Nominal Capital of the Company was £100,000, made up as follows:—

(a) 10,000 Ordinary shares at £5 each paid up to £3 per share.

(b) 30,000 6 per cent. Preference shares of £1 each fully paid.

(c) 5000 4 per cent. Preference shares of £4 each. Of these 3000 have been issued and are paid up to £3 per share.

After drawing up the Annual Profit and Loss account and Balance Sheet, show the Journal entries necessary to effect the above reduction in the books of the Company and the Balance Sheet as it would appear after these entries had been posted.

In writing down the Capital, any surplus, after the debit balance in Profit and Loss A/c has been written off, is to be applied towards the reduction of the item "Preliminary Expenses."

TRIAL BALANCE OF THE N.S.W. SOAP AND CANDLE CO.
As on 31/12/20.

Paid-up Capital		£69,000
Freehold Premises (purchased on 30th June, 1920)	£16,000	
Leasehold Premises	8,400	
Plant and Machinery	9,300	
Sundry Debtors	15,600	
Sundry Creditors		14,900
Bills Payable		6,700
Bills Receivable	19,600	
Bank Balance	11,200	
Discount	500	
Soap A/c.		12,600
Candles A/c.		9,680
Bad Debts	400	
Wages	930	
Materials Purchased	16,470	
Stock 31/12/19	8,000	
Salaries	470	
Cartage, Railage, etc. (outward)	250	
Insurance Premiums A/c.	200	
Preliminary Expenses	2,500	
Ordinary Shares, 4th Call A/c.	200	
Profit and Loss A/c.	22,000	
Transfer Fees		340
5 per cent. Debenture Stock		20,000
Interest on Debentures	800	
General Expenses	400	
	£133,220	£133,220

Stock 31/12/20, £9,200. —

Provide for depreciation of Leasehold Property at 10 p.c. per annum
" " " Plant & Machinery at 10 p.c. per annum
" " " Freehold Premises at 2½ p.c. per annum

The whole amount of the Insurance Premiums as shown above had been paid on a 12 months' policy on 30th September, 1920.

REDUCTION OF CAPITAL.

Nominal Ordinary Capital A/c. .. .. Dr.	£20,000	
To Uncalled Ordinary Capital A/c. ..		£10,000
„ Profit and Loss A/c.		10,000
Being £1 from paid-up and £1 from Uncalled Ordinary Shares.		

Nominal 6 p.c. Pref. Capital A/c. .. Dr.	£7,500	
To Profit and Loss A/c.		£7,500
Being 5/ per share written off Paid-up Capital.		

Nominal 4 p.c. Pref. Capital A/c. .. Dr.	£5,000	
To Unall. 4 p.c. Pref. Capital A/c. ..		£2,000
„ Profit and Loss A/c.		3,000
Being £1 per share written off 2000 Unall. Shares and 3000 Issued Shares.		

TRADING ACCOUNT.

To Stock	£8,000	By Soap Sales	£12,600	
„ Materials Purchased ..	16,470	„ Candle Sales	9,680	
„ Wages	930			£22,280
„ Gross Profit	6,080	„ Stock		9,200
	£31,480			£31,480

PROFIT AND LOSS ACCOUNT.

To Discount		£500	By Gross Profit	£6,080
„ Bad Debts		400	„ Transfer Fees	340
„ Salaries		470		
„ Cartage		250		
„ Insurance Premiums	£200			
Less forward	150			
		50		
„ General Expenses		400		
„ Interest on Debentures ..		800		
„ Depreciation:				
Leasehold Property ..		840		
„ Plant and Machinery ..		930		
„ Freehold Premises .. .. (6 months only)		200		
„ Net Profit to Appropriation A/c.		1,580		
		£6,420		£6,420

APPROPRIATION ACCOUNT.

To Balance Forward	£22,000	By Net Profit	£1,580
„ Preliminary Expenses A/c.	80	„ Nominal Capital A/c. ..	10,000
		„ „ „	7,500
		„ „ „	3,000
	£22,080		£22,080

BALANCE SHEET (after Reduction of Capital).

LIABILITIES.

Nominal Ord. Capital	£30,000	
Less Uncalled ..	10,000	
Called-up Capital ..	20,000	
Less Calls in Arrear	200	
		£19,800
Nominal 6 p.c. Pref. fully paid .. .. .. 30,000 shares of 15/ each		22,500
Nominal 4 p.c. Pref.	15,000	
Less Unallotted 2000 shares of £3 each..	6,000	
Subscribed Capital ..	9,000	
Less Uncalled ..	3,000	
		6,000
5 p.c. Debenture Stock		20,000
Sundry Creditors ..		14,900
Bills Payable		6,700
		£89,900

ASSETS.

Freehold Premises ..	£16,000	
Less Depreciation..	200	
		£15,800
Leasehold Premises ..	8,400	
Less Depreciation..	840	
		7,560
Plant & Machinery ..	9,300	
Less Depreciation..	930	
		8,370
Sundry Debtors		15,600
Bills Receivable ..		19,600
Preliminary Expenses	2,500	
Less written off .	80	
		2,420
Insurance Premiums in advance		150
Stock		9,200
Bank		11,200
		£89,900

EXAMPLE:

The Balance Sheet of the Excelda Company stood as follows:—

LIABILITIES.

				£	s.	d.
Authorised Capital 50,000 shares of £1 each		£50,000				
Subscribed Capital 30,000 shares of £1 each		30,000				
Less Uncalled 4/ p.s.	£6000					
Unpaid Calls on 1500 shares that have been forfeited	150	6,150				
				£23,850	0	0
Overdraft at Bank				1,785	3	9
Sundry Creditors				1,914	16	8
				£27,550	0	5

ASSETS.

					£	s.	d.
Freehold Property, Plant and Fittings					£9,155	0	0
Stock on hand					2,945	0	0
Amount due by Customers					1,262	10	0
Profit and Loss A/c. previous balance	£14,322	1	10				
Less Profit for Half Year	134	11	5				
					14,187	10	5
					£27,550	0	5

It passed the following special resolution,—"That the Capital of the Company be reduced from £50,000 divided into 50,000 shares of £1 each to £24,250, divided into 48,500 shares of 10/- each; that such reduction be effected by cancelling 1500 forfeited shares on which the sum of £1050 has been paid by writing down the Capital paid on the 28,500 shares issued and now current to the extent of 10/- per share and by reducing the nominal value of all shares in the Company from £1 to 10/- each."

The amount gained by writing down the Capital is to be applied to the extinction of the accumulated loss.

Show Journal entries necessitated by the reduction and prepare new Balance Sheet.

Unallotted Shares A/c. .. .. Dr.	£1,500	
To Uncalled Capital A/c.		£300
„ Call A/c.		150
„ Forfeited Shares Reserve A/c. .. (Profit and Loss A/c.)		1,050
Nominal Capital A/c. .. .. Dr.	£1,500	
To Unallotted Shares A/c.		1,500
Cancelling 1500 shares forfeited.		
Nominal Capital A/c. .. .. Dr.	£24,250	
To Unallotted Shares A/c.		10,000
„ Profit and Loss A/c.		14,250

NOMINAL CAPITAL ACCOUNT.

To Unallotted Shares A/c. (cancelled)	£1,500	By Balance	£50,000
„ Reduction of Capital ..	24,250		
„ Balance	24,250		
	£50,000		£50,000

UNALLOTTED SHARES ACCOUNT.

To Balance	£20,000	By Nominal Capital A/c. ..	£1,500
„ Forfeited Shares	1,500	„ „ (Reduction)	10,000
		„ Balance	10,000
	£21,500		£21,500

UNCALLED CAPITAL ACCOUNT.

To Balance	£6,000	By Forfeited Shares	£300
		„ Balance	5,700
	£6,000		£6,000

CALL ACCOUNT.

To Balance	£150	By Forfeited Shares	£150

PROFIT AND LOSS ACCOUNT.

To Balance	£14,187	10	5	By Forfeited Shares	£1,050
„ Balance	1,112	9	7	Nominal Capital	14,250
	£15,300	0	0		£15,300

BALANCE-SHEET.

Nominal Capital £24,250				Freehold Property	£9,155	0	0
Less Unallotted Shares 10,000				Stock	2,945	0	0
Subscribed 14,250				Sundry Debtors	1,262	10	0
Less Uncalled 5,700	£8,550	0	0				
Sundry Creditors	1,914	16	8				
Bank	1,785	3	9				
Profit and Loss A/c. ..	1,112	9	7				
	£13,362	10	0		£13,362	10	0

CHAPTER XXIV.

COMPANY ACCOUNTS—(Continued).—LIQUIDATION AND LIQUIDATOR'S ACCOUNTS.

In so far as the actual bookkeeping is concerned the accounts to be kept by a liquidator are of an exceedingly simple nature. All that is necessary is an account of Receipts and Payments, or a Cash account, showing the amounts received as proceeds of the realisation of the assets of the company and the manner in which these proceeds have been expended. It may, of course, be advisable for the liquidator, in order to wind up the business of the company beneficially, to carry on the business for a short period and, where such is the case, it will be necessary for him to keep, in addition, such books as are usual in that class of company.

This subject is rendered somewhat difficult owing to the fact that the law with regard to the winding up of limited companies varies considerably in the different States. It is proposed, however, to deal first of all with those matters which apply generally and then to point out where the procedure in the various States differs.

A company may be wound up in any one of three ways:

(a) By order of the Court.

(b) Voluntarily.

(c) Voluntarily, but under the supervision of the Court.

(In South Australia and Western Australia no provision is made for winding up a company under the supervision of the Court).

WINDING UP BY THE COURT.

General Procedure.—The Court, upon a petition made by the company or by any creditor or contributory of the company, may order that the company be wound up by the Court under the following circumstances:—

(a) Where the company has passed a special resolution requiring the company to be wound up by the Court.

(b) Where the company does not commence business within one year from incorporation or suspends business for the space of one year.

(c) Where the number of members is reduced to less than the minimum number required upon registration.

(d) When the company is unable to pay its debts.

(e) When the Court is of opinion that it is just and equitable that the company should be wound up.

(f) (In Victoria only). If default is made in filing statutory report or in holding statutory meeting.

A contributory is any person liable to contribute to the assets of the company in the event of the same being wound up, and, until the list of contributories is settled, the term includes any person deemed to be a contributory. A contributory is not entitled to present a petition for winding up by the Court unless

(a) The number of persons is reduced to less than the minimum number required upon registration, or

(b) The shares in respect of which he is a contributory, or some of them, were either originally allotted to him or have been held by him and registered in his name for a period of at least six months during the eighteen months prior to the commencing of the winding up, or have devolved upon him through the death of a former owner.

A copy of any order made by the Court for the winding up of a company must be filed by the company with the Registrar. The Court will appoint an official liquidator to carry on the winding up, and will fix his remuneration, and the official liquidator acts under the control of the Court. The winding up of a company is deemed to commence at the time of the presentation of the petition for winding up and, where such petition is before the Court, the Court may grant an injunction restraining any proceedings against the company.

The Court will settle a list of the contributories. This list is prepared in two sections, the "A" and "B" lists. On

the "A" list will appear the names of all persons who are at present shareholders and liable to contribute to the assets, and on "B" list will be shown the names of all past members of the company who are liable to contribute to the assets on winding up. The Court will make such calls as are necessary upon the contributories and, in so doing, can take into consideration the fact that some of the contributories may not be able to satisfy the calls made on them.

The official liquidator will realise the assets, pay off the creditors of the company, and, when the Court has adjusted the rights of the contributories amongst themselves, will distribute any surplus that may remain amongst the parties entitled thereto. Reference will, of course, be made to the memorandum and articles of association of the company, in order to ascertain whether there are any provisions as to the mode of distribution amongst the shareholders and whether any class of shareholders has any special rights or privileges, and due regard will be had to such provisions.

When the affairs of the company have been completely wound up the Court will make an order that the company be dissolved from the date of such order and the company will be dissolved accordingly. Any order so made must be reported by the official liquidator to the Registrar, who will make a minute in his books of the dissolution of the company.

The above supplies, in a general way, the procedure necessary upon the compulsory winding up of a company, but, in certain of the States, special provisions, in addition to those given above, are included in the Acts and these provisions are briefly stated hereunder:—

Queensland.—In the case of a winding up by the Court the Court appoints a provisional official liquidator and, where the order is made on the petition of a creditor, or in any other case if the Court thinks fit, the Court will appoint a time and place for the holding of a meeting of creditors for the purpose of electing a liquidator. The official liquidator holds office until another liquidator is appointed by the creditors or the Court. In order to vote at the meeting referred to a creditor must first of all prove his debt. The creditors then appoint their own liquidator and fix his remuneration, and, if they think fit, may also appoint a committee of inspection to superintend the performance by the liquidator of his duties.

The appointment of the liquidator by the creditors must be notified to the Court and, if the Court thinks him to be a

fit person it may confirm his appointment, and his appointment dates from the date of the confirmation by the Court.

Whilst the official liquidator is acting he receives 5 per cent. on the money coming to his hands, any such commission being paid into consolidated revenue.

Victoria.—On the winding up order being made by the Court the Court will appoint an official liquidator, whose first duty is to call separate meetings of the creditors and of the contributories to ascertain whether they desire to appoint a liquidator in place of the official liquidator, and whether they want a committee of inspection. If these meetings differ the Court decides what course must be followed. If a liquidator other than the official liquidator be appointed the official liquidator must be repaid any expenses incurred by him in connection with the winding up and, in addition, a sum not exceeding £10 for his services. The liquidator appointed must file a notice of his appointment with the Registrar-General and make the necessary arrangements with regard to security. The remuneration of the liquidator will be fixed by the Court.

Within 14 days after the appointment of a liquidator a Statement of Affairs must be supplied to him by one or more of the directors and the secretary of the company.

At least twice in every year during the continuance of the winding up, the liquidator must file a statement of Receipts and Payments in the prescribed form with the Registrar-General. This statement must be duly audited by an auditor appointed by the Court and a copy must be sent to each creditor and contributory. When the winding up is fully completed the liquidator applies to the Court for a release and such release, when granted, frees him from all liability for any acts done by him in administering the affairs of the company.

South Australia.—This follows very closely the general procedure already described, the chief difference being that the making of calls and the settling of the list of contributories are left in the hands of the official liquidator. The official liquidator is also required once in every six months during the currency of the winding up to file a Balance Sheet and a statement in writing, signed by him, with the Registrar, showing his dealings under and acts done in winding up the estate.

Western Australia.—This also follows the general procedure indicated above, save that, as in the case of South

Australia, the making of calls and settling of the list of contributories are left in the hands of the official liquidator.

Tasmania.—Within fourteen days after the date of the order of the Court for the winding up of a company a Statement of Affairs must be prepared by one or more of the directors and the secretary of the company and handed to the official liquidator.

New South Wales and New Zealand.—These follow the general procedure above-mentioned.

VOLUNTARY WINDING UP.

General Procedure.—A limited company registered under the Act may be wound up voluntarily whenever

(a) The period (if any) fixed for the duration of the company by the articles of association expires, or the event (if any) occurs upon the occurrence of which it is provided by the articles that the company is to be dissolved, and the company in general meeting has passed a resolution requiring the company to be wound up voluntarily.

(b) The company has passed a special resolution requiring the company to be wound up voluntarily.

(c) The company has passed an extraordinary resolution to the effect that it has been proved to its satisfaction that the company cannot, by reason of its liabilities, continue its business, and that it is advisable to wind up the same.

In South Australia and Western Australia paragraph (c) above does not apply.

A copy of every resolution for the voluntary winding up of a company must be forthwith forwarded by the company to the Registrar.

The voluntary winding up commences on the date of the resolution passed by the company requiring it to be wound up voluntarily. The liquidator or liquidators will be appointed by the company, which will fix his or their remuneration. A company in the course of being wound up voluntarily, may delegate to the creditors or to any committee of its creditors the power of appointing the liquidators or any of them. This delegation of power must be authorised by an extraordinary resolution. (In S.A. and W.A., special resolution).

Upon the appointment of liquidators all the powers of the directors cease, except in so far as the company in general meeting, or the liquidators, may sanction the continuance of such powers. The liquidators will also settle a list of contributories and make the necessary calls on those contributories, and they have the right at any time to apply to the Court for the enforcement of such calls.

As soon as the affairs of the company are fully wound up the liquidators must prepare an account showing the manner in which the winding up has been conducted and how the property has been disposed of. They then call a general meeting of the company to have the account referred to laid before the members and to hear any explanation that may be given by the liquidators. When this meeting has been held, notice of the fact must be given to the Registrar, and, upon the expiration of three months from the date of the notice, the company shall be deemed to be dissolved.

In all States (with the exception of Tasmania) if the voluntary winding up continues for more than 12 months the liquidators must summon a general meeting of the company at the end of the first and of each succeeding year during the continuance of the winding up, and shall lay before such meetings an account showing their acts and dealings.

In Victoria the liquidator, when appointed, must file a notice of his appointment with the Registrar-General within 21 days. He must call a meeting of the creditors, which meeting may determine to apply to the Court for the appointment of some person to act in place of, or to act jointly with, the liquidator appointed by the company, or for the appointment of a committee of inspection.

In Victoria and Tasmania if the winding up is not completed within one year after the date of commencement of winding up the liquidator must, at such intervals as may be prescribed during the winding up, send to the Registrar a statement in the prescribed form and containing the prescribed particulars. Any creditor or contributory of the company may inspect this statement.

WINDING UP UNDER SUPERVISION OF THE COURT.

General Procedure.—Where a resolution has been passed by a company to wind up voluntarily, the Court may make an order directing that the voluntary winding up shall continue, but subject to such supervision of the Court and with such

liberty for creditors, contributories or others to apply to the Court, and generally upon such terms and subject to such conditions as the Court thinks just.

The Court may, in determining whether a company is to be wound up altogether by the Court or under the supervision of the Court, have regard to the wishes of the creditors or contributories as proved to it by any sufficient evidence, and may direct meetings to be called for the purpose of ascertaining their wishes.

Where an order is made for a winding-up under the supervision of the Court the liquidators appointed to conduct the winding up may, subject to any restrictions imposed by the Court, exercise all their powers with the sanction of the Court, in the same manner as if the company were being wound up altogether voluntarily. Except as mentioned above a winding up under supervision is deemed to be a winding up by the Court, and confers full authority on the Court to make and enforce calls, and to exercise all other powers which it might have exercised if the company were being wound up by the Court.

In South Australia and Western Australia no provision is contained in the Act for the winding up of a company under the supervision of the Court.

No-Liability Mining Companies.—In New Zealand, South Australia, Western Australia, and Queensland the provisions as to a resolution for the voluntary winding up of a No-Liability Mining Company are similar to those relating to the voluntary winding up of a limited company. In Victoria, a resolution for the voluntary winding up of such a company must be passed at an extraordinary meeting by a two-thirds majority in number and value of all the shareholders, and the company must have previously discharged all its liabilities. In Tasmania and New South Wales, the resolution requires only a two-thirds majority of those present at a general meeting of a company which has discharged all its liabilities, and, in the latter State, provision is made for the appointment of a liquidator by such meeting.

Preferential Payments in Winding up.—These vary in the different States, and it is, therefore, necessary to set them out under separate headings:—

New South Wales.—The costs, charges and expenses of winding up, including the remuneration of the liquidators, have priority over all other claims. No other provision is made under the New South Wales Act with regard to preferential payments.

Note.—In New South Wales the position with regard to preference claims in winding up is very unsatisfactory. Section 264 of the Com-

panies Act, 1899, sets out what provisions of the Bankruptcy Act apply in the winding up of companies, and these are as follow:—

(a) The respective rights of secured and unsecured creditors.

(b) The declaration and distribution of dividends.

(c) The proof and allowance of debts or claims against the assets of the company.

Whilst it must be admitted that it is the general practice in the above-mentioned State to treat salaries, wages and rent as preferential claims in the winding-up of a company to the same extent as in Bankruptcy, it is submitted that the authority for such a course is doubtful if the section referred to and quoted be strictly interpreted. Clause (a), which is generally relied upon, apparently refers to the rights of secured creditors in relation to those of unsecured creditors. If the intention were to make apply all the Bankruptcy provisions relating to secured creditors and all the provisions relating to unsecured creditors, why was the word "respective" included?

On the other hand, the opinion is expressed that the general tendency is for the Courts to enlarge rather than restrict the application of Bankruptcy procedure to the winding up of limited companies. Until, however, the matter is definitely settled by the Courts, a liquidator should, for his own protection, obtain the consent of the creditors before treating as preferential claims of the nature already mentioned.

Queensland.—The Winding Up Act, 1892, Section 21, gives those debts which rank as preferential in Bankruptcy, a priority in the winding up of a company. For such preferential claims, reference should be made to Chapter XVIII., dealing with Statements of Affairs. An Amending Act, 1909, gives such claims a priority over a floating charge on the assets of a company secured by an issue of debentures.

Liquidators' expenses and remuneration have, of course, priority over all other claims.

Victoria.—

(a) Costs and charges of winding up and liquidator's remuneration.

(b) 1. The wages or salary of any clerk or servant in respect or services rendered to the company during four months before the commencement of winding up, and not exceeding £50.

2. The wages of any workman or laborer in respect of services rendered to the company during four months before the above mentioned date.

The wages and salaries above mentioned rank equally amongst themselves and are a first charge on all the property of the company, notwithstanding such property be mortgaged or charged to secure payment of any moneys, or that there be any lien on the same. Such debts also have priority over the claims of the holders of debentures under any floating charge.

(c) In the event of a landlord or other person distraining or having distrained on any goods or effects of the company within three months before the date of a winding up order, the debts to which priority is given, as stated above, shall be a first charge on the goods or effects so distrained or on the proceeds of the sale thereof. Provided that in respect of any money paid under any such charge, the landlord or other person shall have the same rights of priority as the person to whom the payment is made.

South and Western Australia.—The costs, charges and expenses of winding up, together with the liquidator's remuneration, are a first charge on the estate. The Acts of these States provide for the following preferential payments:—

(a) The wages or salary of any clerk or servant in respect of services rendered to the company during four months before the commencement of winding up, but not exceeding £50.

(b) The wages due to any workman or laborer in respect of services rendered during two months before commencement of winding up, but not exceeding £25.

Provided that where any laborer in husbandry has entered into a contract for the payment of a portion of his wages in a lump sum at the end of the year he shall have priority for the whole of such sum, or such part thereof in proportion to the period expired as the Court may decide to be due.

It should be noted that in the event of there being any surplus after payment of the amounts due to the creditors of a company, such creditors are to receive interest at the rates undermentioned on the amounts due to them before any such surplus is divided amongst the shareholders.

In South Australia, if interest had been arranged for between the company and the creditor, he is entitled to receive 5 %. If not arranged for, the creditor is entitled to receive 4 %.

In Western Australia the rates are respectively 6 % and 5 %.

Tasmania.—

(1) Costs and expenses of winding up.

(2) (a) The wages or salary of any clerk or servant in respect of services rendered to the Company during four months before the commencement of the winding up, but not exceeding £100.

(b) The wages of any workman or labourer, whether for time or piecework, in respect of services rendered to the Company during four months before the commencement of the winding up.

(c) Amounts not exceeding in any one case £100 due in respect of compensation under the Workmen's Compensation Act, 1918, except in those cases where the Company is being wound up voluntarily for the purpose of reconstruction or amalgamation.

The debts in paragraph (2) above rank equally among themselves, and have priority over the claims of Debenture holders under any floating charge in those cases where the assets available for the payment of general creditors are insufficient to meet them.

New Zealand.—

(a) Costs, expenses of winding up, and the liquidator's remuneration.

(b) (1) The wages or salaries due to any clerk or servant for services rendered during the four months prior to the date of commencement of winding up, but not exceeding £50.

(2) The wages due to any laborer or workman during two months prior to the date of commencement of winding up.

The wages and salaries in paragraphs (1) and (2) above rank equally amongst themselves.

Adjustment of Rights of Contributories.—Where there is any surplus after the payment of the amounts due to creditors the memorandum and articles of association of the company will require to be looked into to see whether any provision is made as to the distribution of such surplus and whether any class of shareholders has any special rights or privileges.

The preference shareholders may have a preferential claim for repayment of capital but not necessarily so. Unless there is special provision to that effect in the memorandum or articles, preference shareholders have no priority over ordinary shareholders in the distribution. Where they have a prior claim on winding-up, any loss on realisation will have to be borne, in the first place, by the other shareholders, but preference shareholders will not be entitled to any arrears of dividend even if there is a profit on realisation, unless the articles provide that they are entitled to be paid out of profits whether dividends are declared or not.

Subject to any provision in the articles governing the distribution of any surplus after the payment of creditors, and subject also to any clause giving preference shareholders a preference as to capital, all losses must be borne by the different classes of shareholders in proportion to the nominal capital represented by the shares held by each class, and not in proportion to the amount paid on those shares. Thus, if a company has two classes of shares—10,000 "A" ordinary shares of the nominal value of £1 each, fully paid up, and 10,000 "B" ordinary shares of £1 each, paid up to 10s. per share, any loss on realisation would fall equally on the two classes of shareholders.

In some cases it may be found necessary to make a call on one class of shareholders in order to enable the amount due to another class to be paid off. Suppose, for example, the nominal capital of a company is 40,000 shares of £1 each, divided into two classes of ordinary shares, "A" and "B," of 20,000 shares each. The "A" shares are paid up to 15s. per share, and the "B" shares to 5s. per share. There is a loss on realisation of £15,000, and this has to be borne equally by the two classes of shareholders—i.e., the "A" shareholders lose £7500 and the "B" shareholders an equal amount. Under such circumstances, the "B" shareholders will have to pay a call of 2s. 6d. per share to make their loss equal to the "A" shareholders', and to provide the necessary cash to pay the "A" shareholders the amount due to them.

If the shares in the different classes are not of the same nominal values, the loss must be borne by the different classes in proportion to the total nominal value of the shares in each class. Suppose a company has issued shares as follows:—

20,000 Preference Shares (not pref. as to Capital) of £10 each fully paid	£200,000
20,000 "A" Ordinary Shares of £5 each, paid up to £3 per share	60,000
20,000 "B" Ordinary Shares of £5 each, paid up to £2 per share	40,000
Total Paid-up Capital	£300,000

After paying all creditors and the costs of liquidation, the liquidator has £260,000 available for distribution. It is clear, therefore, that there must have been a loss of £40,000, and this loss must be borne by the shareholders. The nominal values of the different classes of shares issued are:—Preference, £200,000; "A" ordinary, £100,000; "B" ordinary, £100,000; and the above loss must be borne in those proportions. The credit side of the Cash Book, showing the distribution, would appear as under:—

By Pref. Shareholders:—		
20,000 Shares of £10, fully paid	£200,000	
Less ½ loss on realisation	20,000	
		£180,000
" "A" Ordinary Shareholders:—		
20,000 Shares paid to £3	60,000	
Less ¼ loss on realisation	10,000	
		50,000
" "B" Ordinary Shareholders		
20,000 Shares paid to £2	40,000	
Less ¼ loss on realisation	10,000	
		30,000
		£260,000

Summarising the above information, the following points should be noted:—

(a) Preference shareholders have no preference claim as regards capital unless there is provision in the memorandum or articles to that effect.

(b) Subject to any provision in the articles to the contrary all shareholders have to stand any loss on realisation in proportion to the amount of the nominal value of the shares held by them respectively—i.e., if the shares are of the same nominal amount each shareholder must lose the same amount per share.

Before making any distribution amongst the shareholders the liquidator must take every care to ensure that all creditors' claims have been discharged, and he should retain and hold available any amounts due by the company for income-tax for the previous or current year.

Where there is a surplus after paying off creditors and repaying the amount due to shareholders in respect of capital,

or, in other words, where there is a profit on realisation, this amount is, subject to any provision in the articles to the contrary, divisible amongst the shareholders in proportion to the nominal value of the shares held by them respectively and not in proportion to the amount paid up on such shares.

Calls Paid in Advance.—Where certain of the shareholders have made payments in advance of calls, any such advances, together with interest due thereon, are repayable before ordinary capital is paid to the shareholders. They do not, however, rank in competition with the claims of outside creditors.

Statement of Affairs.—In the case of a compulsory winding-up in Tasmania and Victoria the Act requires that the directors and secretary of the company shall supply to the liquidator a statement of affairs of the company within 14 days after the date of the order. This statement is to be in the prescribed form, but as this follows very closely the form of Statement of Affairs illustrated at the end of Chapter 18, it is not thought necessary to duplicate it here. The only difference is that any calls in arrears will be shown on the assets side, and there will be stated at the foot of the statement the amount of uncalled capital which is available to meet the deficiency as shown in the statement.

Statement of Receipts and Payments.—The liquidator is required to present to the shareholders a statement showing his dealings with the estate and the statement presented by him will usually take the form shown herewith.

THE EXCELLENTIA COMPANY, LTD. (In LIQUIDATION).

LIQUIDATOR'S FINAL STATEMENT OF RECEIPTS AND PAYMENTS.

January 10th, 1921.

	Estimated to produce.	Receipts.
To Total Receipts from date of Winding-up Order:—		
Machinery and Plant	£12,500	£11,700
Stock	7,400	7,020
Book Debts—		
Good	6,960	6,900
Doubtful and Bad	300	260
Land and Buildings	10,000	10,080
	37,160	35,960
" Sundry Receipts o/a Trading, etc		500
Total		36,460
Less payments to redeem Securities, etc.		3,184
Net amount realised		33,276
Calls in arrears paid by Contributories		140
		£33,416

		Payments.
By Court Fees, Duties, etc.		£350
" Sundry Law Costs		330
" Liquidator's Remuneration		525
" Special Charges and Expenses—		
Accountants	200	
Auctioneers	411	
Advertising	119	
Other Taxed Costs	81	
		811
		2,016
" Creditors—		
Preferential	1,400	
Unsecured (20s. in the £)	6,500	
		7,900
" Contributories—		
"A" Pref. Shares, 10,000 of £1 each, fully paid (Pref. as to Capital)		10,000
" "B" Pref. Shares, 10,000 of £1 each fully paid (not Pref. as to Capital)	10,000	
Less share of Loss	2,000	
		8,000
" Ordinary Shares, 10,000 of £1 each, paid up to 15s.	7,500	
Less share of loss	2,000	
		5,500
		£33,416

EXAMPLE.—The Papuan Company, Ltd., went into voluntary liquidation, with liabilities amounting to £30,000, and assets which eventually realised £178,000. The capital of the company consisted of 10,000 preference shares of £10 each, of which £7 per share was called and paid up. The holders of 8000 shares had, however, paid up the full amount in advance of calls. There were also 10,000 ordinary shares of £10 each, on which £9 per share had been called. Holders of 2000 shares had only paid £8 per share, whilst holders of 4000 shares had paid up the full amount in advance of calls. Interest on calls paid in advance was due, but not included in the above liabilities:—Preference shareholders, £630; ordinary, £70.

Assuming that the preference shares have no prior rights as to capital, show in the form of a liquidator's account of receipts and payments how you would divide the available balance among the shareholders, assuming that the costs of winding-up amounted to £2000, liquidator's remuneration £900, and that the calls in arrears are duly collected.

THE PAPUAN COMPANY, LIMITED.

LIQUIDATOR'S STATEMENT OF RECEIPTS AND PAYMENTS,

From 4th June, 1920, to 8th March, 1921.

RECEIPTS		PAYMENTS		
To Realisation of Assets..	£178,000	By Expenses of Winding-up		£2,000
" Calls in arrears collected	2,000	" Liquidator's remuneration		900
		" Sundry Creditors		30,000
		" Repayment of Calls paid in advance, including interest—		
		Preference Shareholders		24,630
		Ordinary Shareholders		4,070
		" Balance down		118,400
	£180,000			£180,000
To Balance being amount available for distribution amongst shareholders	£118,400	By Preference Shareholders. 10,000 Shares paid to £7	£70,000	
		Less ½ share of loss (£41,600)	20,800	
				49,200
		" Ordinary Shareholders 10,000 Shares paid to £9	£90,000	
		Less ½ share of loss (£41,600)	20,800	
				69,200
	£118,400			£118,400

EXAMPLE.—The liquidator of a trading company, prior to complete winding-up, has divided the surplus proceeds among the different groups of shareholders in the following manner:—

To holders of 5,000 £1 "A" Ordinary	Shares paid up to	20/	.. ..	£3,500
„ „ „ 5,000 £1 "B" „	„ „ „	10/	.. ..	£1,000
„ „ „ 10,000 £1 "C" „	„ „ „	5/	.. ..	Nil.

There is now a balance of £500 available for distribution among the shareholders. In what proportions should this amount be distributed?

The distribution amongst shareholders already amounts to £4500, and the liquidator has a final amount of £500 available. The total net proceeds of realisation, after provision has been made for all expenses, therefore comes to £5000, and, as the paid-up capital of the company is £10,000, there is a loss of £5000 to be borne by the different groups of shareholders. This loss must be borne according to the nominal value of the shares, as under:—

	Total Loss.	Loss to each group.	Amount Paid-up.	Total dividend due.	Less dividend rec'd.	Balance due.
"A" shares	$\frac{1}{4}$ of £5,000 =	£1,250	5,000	3,750	3,400	250
"B" shares	$\frac{1}{4}$ of £5,000 =	1,250	2,500	1,250	1000	250
"C" shares	$\frac{1}{2}$ of £5,000 =	2,500	2,500	nil	nil	—

It will be seen from the above that the £500 now available must be divided equally between the "A" and "B" shareholders.

CHAPTER XXV.

RECONSTRUCTION AND AMALGAMATION OF COMPANIES.

Reconstruction.—This is a procedure sometimes resorted to by a company which is desirous of reducing its capital without necessitating an application to the Court or wishing to enter into some undertaking not authorised by its Memorandum of Association. As was pointed out in the chapter dealing with Reduction of Capital, a company cannot reduce its capital, except to cancel unissued shares, without obtaining the consent of the Court, and, if the reduction involves either a return of capital to the shareholders or a writing down of uncalled capital, the consent of the company's creditors to the reduction is required before the consent of the Court can be secured.

Similarly, where a company desires to alter entirely the nature of its business or to take over another business of a totally different nature, the only course open to it is to reconstruct. The Act provides, of course, that within certain defined limits a company can, with the consent of the Court, alter the "objects" clause. In this connection the word "modify" would be more correct than "alter," as the Act nowhere authorises an absolute alteration of the objects of a company. The Court would never consent, for example, to a company formed for the purpose of manufacturing clothing altering its objects so as to enable it to run timber yards, but there is nothing to prevent a clothing company from winding-up and selling its assets to a company formed for the purpose of conducting a timber business.

The word "reconstruction" does not describe accurately the procedure now being explained. A company reconstructing does not construct itself over again. A new company is formed to take over the old one, the transaction being treated as a sale in the books of the old company, and as a purchase in the books of the new company. The old company will require to be wound up, a liquidator being appointed for the purpose The Companies Act provides that a company being wound up can, by special resolution, authorise the liquidator to accept as full or part payment for the assets of the company shares, debentures, etc., in some other company. The selling company can arrange any terms it pleases with the purchasing company.

As an illustration, suppose a company, having a capital of, say, 1000 shares, paid up to £10 each, desires to reduce its capital without obtaining the consent of the Court. It could pass a special resolution requiring the company to be wound up voluntarily, appoint a liquidator, and authorise such liquidator to accept 1000 shares, paid up to £5 each, in the new company (having as its members the members of the old company) as payment for the assets taken over. Similar procedure could be adopted if a company wished to conduct some business totally different from that in which it was engaged. A new company could be formed, with a suitable "Objects" clause in its memorandum, and the winding-up and sale of the old to the new company arranged.

Where a company, in course of winding-up, passes a special resolution authorising the liquidator to accept the shares, etc., of another company as full or part consideration for its assets, this resolution is binding on all the members of the company. It is provided, however, that any member of such company, who has not voted in favor of the special resolution at either meeting, can, by giving notice in writing to the liquidator within seven days after the second meeting, expressing his dissent from the resolution, require the liquidator either to purchase his shares in the company or refrain from carrying the resolution into effect. If the shareholder and liquidator cannot agree as to the value of the shares, the matter must be referred to arbitration in order to have the price fixed.

It is not uncommon to see included in the articles of association of companies a clause purporting to take away from the members of such companies the rights given to them by the Act as above-mentioned, and substituting other rights therefor. It has been decided that such a clause is ultra vires as the provisions of the Act cannot be over-ridden by a company's articles. (Bisgood v. Henderson's Transvaal Estates (1908), 1 Ch. at page 758.)

The agreement for sale between the old and the new company usually provides that the new company is to take over all the property of the old company. Where such is the case the new company will have to provide the money necessary to pay dissenting shareholders in the old company. The exact position with regard to such shareholders will naturally depend upon the terms of the agreement between the two companies.

If any shareholders of the old company who have failed to give the required notice of dissent to the liquidator do not take up the shares in the new company to which they are en-

titled within the time prescribed (and this may often happen where the shares are issued as only partly paid up), they cannot be compelled to accept them, but any such shares will then, in the absence of a contrary provision, be at the disposal of the old company or its liquidator. The scheme of reconstruction or amalgamation may, however, provide that such shares are to be at the disposal of the new company, or that they shall be sold and the proceeds divided amongst the members who refused them.

Amalgamations.—This is the procedure by which two or more companies combine their businesses for the purpose of enabling them to be conducted under the one management. The amalgamation may be effected either by one of the companies taking over the other, or others, or by the formation of a new company to take over all the companies. In either case the procedure will be the same. The companies being taken over must be wound up and a special resolution passed authorising the liquidator to accept the shares, etc., of another company as consideration for the sale. The whole procedure will be similar to that adopted in the case of a reconstruction, and the explanation supplied under that heading applies here. It should be noted, however, that, in the case of a reconstruction or amalgamation the creditors of the company or companies winding-up should either be paid off or their agreement to accept the new company as a debtor in place of the old obtained.

Entries in the Books.—As the entries in the books are practically the same in the case of either a reconstruction or an amalgamation there is no necessity to deal with this portion of the subject separately. The company or companies in course of winding-up will treat the transaction as a sale, and the company taking over the other company or companies as a purchase. Taking, first of all, the selling company, the entries will be the same as in an ordinary realisation. The procedure may be briefly summarised as under:—

(1) Transfer all assets to the debit of Realisation account.

(2) Credit Realisation account and debit appropriate accounts to represent the cash, shares, etc., received in full payment for the assets.

(3) Where the purchasing company takes over the liabilities of the company this will form part of the consideration for the purchase and the accounts representing the liabilities will, therefore, be transferred to the credit of Realisation account.

(4) Transfer the balance of Realisation account to Distribution account.

(5) Transfer the balances of all accounts representing moneys due to shareholders to Distribution account. These accounts will include Capital, Reserves, Profit and Loss account, etc.

(6) Pay off the creditors. Where the purchasing company does not take over the liabilities, these will, of course, have to be discharged by the company winding-up.

(7) It will then be found that there will be just sufficient cash, shares, etc., to pay to the shareholders the amount due to them as shown by the Distribution account. This balance will be distributed by the liquidator according to the regulations of the company.

In the books of the purchasing company the entries are of a comparatively simple nature. The vendor company will be credited and the various asset accounts debited with the values of the assets taken over. Any liabilities taken over will be debited to the vendor, and suitable accounts credited. Payment will then be made to the vendor of the agreed amount in shares, cash, etc. Where the payment exceeds the difference between the assets and liabilities taken over the additional payment will be for goodwill, and an entry debiting Goodwill account and crediting the vendor will be required to adjust. Where the payment is less than the difference between the assets and liabilities, the amount of the credit balance in the Vendor's account will be in the nature of a profit to the purchasing company. The exact nature of this profit will depend upon circumstances. If there is any indication that the assets taken over from the vendor are not worth the values stated the credit balance in the Vendor's account will be applied towards writing these down. If the assets are worth book values the credit balance in the Vendor's account will be transferred to Reserve account.

In some cases the profit to the purchasing company may arise from the fact that its shares are at a premium and the vendors have accepted such at more than face value. In such a case any credit balance in the Vendor's account will represent, in reality, a premium on the shares issued to them, and the amount should be transferred to Premium on Shares account.

It should be noted carefully that, in the books of the vendor company, any shares received as consideration for the sale of the concern will be entered at their market value, in

order to show the actual financial result of the transaction. The purchasing company will, of course, put the shares through at their nominal value and any profit disclosed over the transaction will be dealt with in the manner already explained.

Where, in the case of an amalgamation, the purchasing company is taking over two or more other companies, separate accounts will be opened for the respective companies, but otherwise the procedure is the same.

The following examples and specimen solutions should make the necessary book entries clear:—

EXAMPLE.—The following are Balance Sheets, on 31st December, 1921, of the "O" and "P" companies respectively:—

"O" COMPANY, LTD.

LIABILITIES.			ASSETS.	
Nominal Capital: 200,000 shares of £1 each..	£200,000		Freehold Premises	£80,000
Less Unallotted	50,000		Machinery, etc.	40,000
		£150,000	Sundry Debtors	20,000
Debentures..		16,000	Stock..	43,000
Creditors..		20,000	Cash	3,000
		£186,000		£186,000

"P" COMPANY, LTD.

LIABILITIES.		ASSETS	
Nominal Capital: 10,000 shares of £2 each fully paid ..	£20,000	Property	£13,000
Debentures	20,000	Plant and Machinery	10,000
Sundry Creditors	12,000	Debtors	11,000
		Stock	9,000
		Bank	9,000
	£52,000		£52,000

It is agreed on this date that the companies shall amalgamate on the following basis—the creditors of the "P" company having agreed to the proposal.

> The "O" company to take over the business of the "P" company as a going concern on the basis of the above Balance Sheet, the former company to pay the cost of the amalgamation and to issue to the holder of each share in the "P" company four shares of £1 each, credited as paid up to 15s. per share.

The costs of amalgamation amounted to £1300. Raise accounts showing the closing of the "P" company's books, and set out the necessary Journal entries in the books of the "O" company to record the transaction.

"P" COMPANY'S BOOKS.

REALISATION ACCOUNT.

To Sundry Assets:—		By Debentures Account (taken over by "O" Company)	£20,000
Property	£13,000	„ Sundry Creditors (ditto)	12,000
Plant and Machinery	10,000	„ Shares in "O" Company (40,000 shares paid up to 15/)	30,000
Debtors	11,000		
Stock	9,000		
Bank	9,000		
„ Profit on Realisation to Distribution Account	10,000		
	£62,000		£62,000

SHARES IN "O" CO.'S ACCOUNT.

To Realisation Account	£30,000	By Distribution Account	£30,000

DISTRIBUTION ACCOUNT.

To Shares in "O" Co. distributed among Shareholders. 4 shares paid up to 15s. per share issued for each share in this Co.	£30,000	By Profit on Realisation	£10,000
		Nominal Capital Account (fully paid)	20,000
	£30,000		£30,000

"O" COMPANY'S BOOKS.

JOURNAL ENTRIES.

		Dr.	Cr.
Sundry Assets:—			
Property Account	Dr.	£13,000	
Plant and Machinery	Dr.	10,000	
Sundry Debtors Account	Dr.	11,000	
Stock-in-trade Account	Dr.	9,000	
Bank Account	Dr.	9,000	
Goodwill Account	Dr.	10,000	
To "P" Co. (Vendor's) Account			£62,000
(Being Assets of above Co. taken over as per contract.)			
"P" Co. (Vendor's) Account	Dr.	32,000	
To Sundry Liabilities:—			
Debentures Account			20,000
Sundry Creditors Account			12,000
(Being Liabilities of the above Co. taken over as per contract.)			
Uncalled Capital Account	Dr.	40,000	
To Unallotted Shares Account			40,000
(Being 40,000 shares of £1 each taken by Shareholders of "P" Co.)			
"P" Co. (Vendor's) Account	Dr.	30,000	
To Uncalled Capital Account			30,000
(Being above shares issued as paid up to 15s. per share as consideration for transfer of business.			
Amalgamation Costs Account	Dr.	1,300	
To Cash Account			1,300

EXAMPLE.—The liquidator of the A.B. Company, Ltd., prepared a scheme of reconstruction, based on the book values as at 31st December, 1919 (particulars of which are set out at the foot), which was submitted to and approved by shareholders and creditors. Dates may be disregarded.

The following is an outline of the reconstruction scheme adopted:—

(a) New company to be formed under the style of the A.B. Company (1920), Limited, and to acquire the assets and goodwill of the old company, on the basis of the book values.

(b) Nominal capital, £50,000—viz., ordinary shares, 33,332 shares at 10s., £16,666; preference shares, 33,334 at £1, £33,334.

(c) For each share in the old company the holders to apply for £1 preference share in the new company, and to receive also (as nearly as possible) one ordinary share, credited as fully paid.

N.B.—33,334 preference shares were allotted and paid for, and 33,332 ordinary shares were distributed.

(d) Unsecured creditors of the old company have offered to them by the new company a composition of 10s in the £, payable on the formation of the new company, or a debenture for the full amount of their debts, bearing interest at 5 per cent., and repayable in ten years. One half in value accepted the cash composition and the other half agreed to take debentures.

(e) The lease of the premises to be taken over by the new company with the consent of the landlord.

(f) The liquidation and other charges amounting to £500 and all preferential claims to be satisfied by the new company, to whom the liquidator will hand over all assets, none of which, with the exception of the calls in arrears (which have been paid), have been realised.

You are requested to draft the Journal entries necessary to open the books of the new company, recording the allotment of capital, and to compile a Balance Sheet, setting forth the position as at the date of the allotment of the shares

PARTICULARS OF ASSETS AND LIABILITIES.

Furniture and Plant	£6,174	Capital	£33,334
Stock	14,305	Creditors—	
Debtors	3,384	Unsecured	24,082
,, for Rent	28	Preferential—	
Calls in Arrears	216	For Wages, Rates, and	
Cash	340	Taxes	1,716
Goodwill	9,642		
Preliminary Expenses	2,296		
Leasehold Premises	4,224		
Profit and Loss	18,523		
	£59,132		£59,132

SOLUTION.

JOURNAL ENTRIES.

Unallotted Ordinary Shares A/c	Dr.	£16,666		
,, Preference ,, ,,	Dr.	33,334		
To Nominal Capital A/c			£50,000	
Furniture and Plant A/c	Dr.	6,174		
Stock	Dr.	14,305		
Debtors	Dr.	3,384		
,, for Rent	Dr.	28		
Cash (Incl. Calls realised)	Dr.	556		
Goodwill	Dr.	9,642		
Leasehold Premises	Dr.	4,224		
To Vendor Co.'s A/c			38,313	
Vendor Co. A/c	Dr.	25,798		
To Creditors unsecured			24,082	
Preferential Crs.			1,716	
Unsecured Creditors A/c	Dr.	24,082		
To Debentures A/c			12,041	
Cash			6,020	10 0
Reserve A/c			6,020	10 0
Vendors' A/c	Dr.	16,667		
To Unallotted Ord. Shares A/c			16,666	
Cash A/c			1	
Reserve A/c	Dr.	4,152		
To Vendors' A/c			4,152	
Preliminary Expenses A/c	Dr.	500		
Preferential Creditors A/c		1,716		
To Cash			2,216	
Cash A/c	Dr.	33,334		
To Unallotted Pref. Shares A/c.			33,334	

CASH ACCOUNT.

To Vendors' Balance	£556	By Vendors (2 shares short issued)	£1	
Pref. Share Calls	33,334	Unsecured Crs.	6,020	10 0
		Preliminary Expenses	500	
		Preferential Crs.	1,716	
		Balance	25,652	10 0
	£33,890		£33,890	0 0

BALANCE SHEET.

LIABILITIES.		ASSETS.	
Preference Capital	£33,334	Leasehold	£4,224
Ordinary Capital	16,666	Goodwill	9,642
Debentures	12,041	Furniture and Plant	6,174
Reserve A/c.	1,868 10 0	Sundry Debtors	3,412
		Preliminary Expenses	500
		Cash	25,652 10 0
		Stock	14,305
	£63,909 10 0		£63,909 10 0

Note.—The preliminary expenses should be written off against the reserve, as it creates rather an absurd position to include such an item as an asset when a reserve appears on the other side exceeding the amount.

The balance of Reserve account should then be applied towards writing down the goodwill.

EXAMPLE:

(a) The following shows the Assets and Liabilities of the Bank of the Isles as disclosed on the 31st August, 1920:

Capital	£1,000,000	0	0
Notes in circulation	323,781	0	0
Bills in circulation	286,890	11	0
Notes and Bills of other banks	91,929	18	0
Deposits and other liabilities	10,540,679	12	0
Coin and bullion in hand	1,426,400	5	0
Reserve	45,000	0	0
Government securities	581,122	19	0
Bills discounted and all debts due to the Bank (after making provision for bad and doubtful debts)	9,808,194	6	0
Bank premises	312,772	0	0
Liability of customers on letters of credit, as per contra	156,244	5	0

Draw Balance Sheet, supplying Profit and Loss account, balance of which is not given.

(b) There was subsequently a run on the Bank, and on the 24th September, 1920, the assets and liabilities are taken over by another bank, as at that date, payment to be made in cash on completion of valuation of assets. A fresh balance shows the assets to have been reduced by the following figures between 31st August and 24th September:

Coin	£327,491	9	9
Government securities	241,326	6	10
Bills discounted and all debts due to bank	82,505	11	6

The net profits on current business for the 24 days had been £3,271 1s. 8d.

The Government securities were valued, and showed a surplus of £2,104 10s. 10d.

An allowance was made by the Bank of the Isles, in lieu of valuations, of 10 per cent. on the amount of "Bills discounted and all debts due to bank" and of "Bank premises."

The internal reserve for bad and doubtful debts was £700,000.

Draw up a statement showing the amount returnable to the shareholders of the Bank of the Isles, after paying costs extending to £5271 4s. 5d.

SOLUTION (A).

BANK OF THE ISLES.

BALANCE SHEET AS AT 31st AUGUST, 1920.

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Capital	£1,000,000	0	0	Coin and Bullion..	£1,426,400	5	0
Reserve	45,000	0	0	Notes and Bills of other Banks.. ..	91,929	18	0
Notes in Circulation	323,781	0	0	Government Securities	581,122	19	0
Bills in Circulation	286,890	11	0	Bills Discounted, etc.	9,808,194	6	0
Deposits and other Liabilities..	10,540,679	12	0	Bank Premises ..	312,772	0	0
Outstanding Letters of Credit as per contra	156,244	5	0	Liability of Customers on Letters of Credit as per contra	156,244	5	0
Surplus, representing balance of Profit and Loss Account	24,068	5	0				
	£12,376,663	13	0		£12,376,663	13	0

SOLUTION (B).

The following statement shows the movements in the assets and liabilities between the 31st August and the 24th September. These entries would be shown in the accounts representing the various assets and liabilities, but for the purpose of saving space these are not given and the statement referred to shows the balances of such assets and liabilities as have been altered by the transactions referred to.

	£	s.	d.		£	s.	d.		£	s.	d.
Coin..	£1,426,400	5	0	less	£327,491	9	9	=	£1,098,908	15	3
Government Securities	581,122	19	0	less	241,326	6	10	=	339,796	12	2
Bills Discounted	9,808,194	6	0								
Add Secret Reserve for doubtful debts	700,000	0	0	less	82,505	11	6	=	10,425,688	14	6
Reduction in Assets					651,323	8	1				
Plus Profits					3,271	1	8	which now =	27,339	6	8
Total reduction in Liabilities					654,594	9	9	which now =	9,886,085	2	3

It will be noted from the above that the secret reserve has been added to Bills Discounted and Other Debts. As this is a reserve for bad and doubtful debts, in all probability, the £700,000 has been deducted from this asset in the Balance Sheet.

The making of profits amounting to £3271 1s. 8d. will cause either an increase of the assets or a decrease in the liabilities. Taken either way, the result will be the same. In this particular case, it is more convenient to assume that the profits have been utilised in a further reduction of the liabilities.

The Balance Sheet of the Bank of the Isles, after the above transactions have been recorded, will appear as under:

BALANCE SHEET AS AT 24th SEPTEMBER, 1920.

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Capital	£1,000,000	0	0	Coin and Bullion ..	£1,098,908	15	3
Reserve	45,000	0	0	Notes and Bills of other Banks	91,929	18	0
Reserve for Bad & Doubtful Debts	700,000	0	0	Government Securities	339,796	12	2
Notes in Circulation	323,781	0	0	Bills Discounted, etc.	10,425,688	14	6
Bills in Circulation	286,890	11	0	Bank Premises ..	312,772	0	0
Deposits and other Liabilities..	9,886,085	2	3				
Profit and Loss Account	27,339	6	8				
	£12,269,095	19	11		£12,269,095	19	11

The contingent liability under Letters of Credit and the corresponding asset have been omitted from the Balance Sheet, as these items would not appear in the Bank's ledger.

Accounts Showing Closing Entries in the Books of the Bank of the Isles.

REALISATION ACCOUNT.

	£	s.	d.		£	s.	d.
To Notes and Bills of other Banks	£91,929	18	0	By Purchasing Bank:—			
„ Government Securities	339,796	12	2	„ Notes and Bills, etc...	£91,929	18	0
„ Bills Discounted and other debts	10,425,688	14	6	„ Government Securities at revaluation	341,901	3	0
„ Bank Premises	312,772	0	0	„ Bills Discounted less 10 %.. ..	9,383,119	17	0
„ Cash a/c—Costs of Realisation ..	5,271	4	5	„ Bank Premises, less 10 %	281,494	16	0
				„ Loss on Realisation	1,077,012	15	1
	£11,175,458	9	1		£11,175,458	9	1

The above account is credited with the valuations at which the purchasing bank takes over these assets, the corresponding debit entry being made in the purchasing bank's account The purchasing bank also takes over the liabilities and the balances of those accounts will be transferred to the credit of the purchasing bank. It will be noticed that Coin and Bullion account has not been transferred to the debit of Realisation account. If this asset were taken over by the purchasing bank it would involve a repayment to the Bank of the Isles, and the more common-sense course is for the Bank of the Isles to pay to the purchasing bank in cash the amount by which the liabilities it takes over exceed the agreed value of the assets.

DISTRIBUTION ACCOUNT.

	£	s.	d.		£	s.	d.
To Realisation A/c, being loss on Realisation of Assets	£1,077,012	15	1	By Capital A/c ..	£1,000,000		
,, Cash distributed amongst shareholders	695,326	11	7	,, Reserve A/c ..	45,000		
				,, Reserve for Doubtful Debts	700,000		
				,, Profit and Loss A/c	27,339	6	8
	£1,772,339	6	8		£1,772,339	6	8

CASH ACCOUNT.

	£	s.	d.		£	s.	d.
To Balance	£1,098,908	15	3	By Costs of Realisation	£5,271	4	5
				,, Purchasing Bank	398,310	19	3
				,, Cash distributed amongst shareholders	695,326	11	7
	£1,098,908	15	3		£1,098,908	15	3

PURCHASING BANK ACCOUNT.

	£	s.	d.		£	s.	d.
To Sundry Assets taken over—				By Sundry Liabilities taken over—			
Notes, etc.	£91,929	18	0	Notes in Circulation	£323,781	0	0
Government Securities	341,901	3	0	Bills in Circulation	286,890	11	0
Bills Discounted, etc.	9,383,119	17	0	Deposits, etc. ..	9,886,085	2	3
Bank Premises	281,494	16	0				
Cash	398,310	19	3				
	£10,496,756	13	3		£10,496,756	13	3

CHAPTER XXVI.

PERCENTAGE STATEMENTS.

The preparation of Percentage Statements is a comparatively modern feature of Accountancy; in fact, it may be said to date from the adoption of present-day methods of costing and is a necessary adjunct of a good costing system.

The value of Percentage Statements is that it allows of a useful comparison being made between one financial period and another, not only as regards the net result of a period, but also in respect of the relative costs under the various headings of expenditure. It is also useful in a lesser degree as affording a basis upon which the results of one business may be compared with those of another. The advantage of the first of these applications is, for example, that a manufacturer may see whether or not the cost of output under the heading of wages, or any other expenditure, is increasing or decreasing. If he sees that in 1919 the percentage of his wages to the factory output was 34.18 per cent., whilst in 1920 it is 41.23 per cent., he is put on inquiry as to the reason for this increase.

The importance of the matter will be seen when it is pointed out that this increase may be caused by—

(1) Errors in costing.

(2) General laxity in factory management.

(3) Fraud in the wages sheets.

One of the most practical features of the Percentage system is that it will often reveal frauds that defy every other practical means of checking, provided, of course, the fraud is extensive enough to reveal itself in an increase in the percentage of cost. Taking, for example, the payment of wages, a smart cashier or foreman, who makes himself familiar with the method adopted of checking the payments, both in the office and by the Auditor, might successfully put some fraudulent scheme into operation for his own benefit. This is not by any means an unheard-of proceeding. No system of check yet devised has proved successful in preventing fraud, the most that can be done is to ensure that the fraud will be dis-

covered before it reaches serious dimensions. The actual scheme of fraud may be ingenious enough to defeat every ordinary system of checking, but if a good system of percentage calculations is in vogue it is almost certain to be discovered thereby if it becomes really serious.

The second advantage claimed for the Percentage system, viz., that of enabling one trader to compare his business with other businesses of a similar nature, is one which is perhaps not so likely to be availed of, seeing that it is difficult for one manufacturer to obtain the trading accounts of other businesses. Where, however, such information can be obtained he can very usefully compare his percentage of cost with those of the businesses in question.

It has already been pointed out that, in commerce, it is an invariable rule to calculate percentages of profit on the basis of sales—e.g., 25 per cent. gross profit means that there is £25 profit on the sale of £100, not on a sale of £125. It will be understood, therefore, that in the proportion of statements such as are described herein the sales will always represent 100 per cent.

The showing of percentages appears to greatest advantage in the Revenue account of a non-trading concern especially where the whole of the Revenue account is shown in one division, not in two or more, and the items on the debit side account for the whole of the credit entry, which represents 100 per cent. This will be seen by reference to the Revenue account of an Opera House company, such as is shown in the following statement:—

REVENUE ACCOUNT OF THE OPERA HOUSE COMPANY, LTD
For Year ending 31st March, 1920.

Dr.

	%	£	s.	d.		%	£	s.	d.
To Interest	3.50	115	16	3	By Rents	100	3310	9	8
Insurance ..	8.46	280	0	0					
General Charges	6.77	223	13	4					
Directors' Fees	3.17	105	0	0					
City Rates ..	5.82	192	14	10					
Alterations and Improvements, Opera House	9.70	321	0	0					
Secy's Salary	2.53	84	10	0					
Custodian's Sal.	3.92	130	0	0					
Balance of Net Revenue ..	56.13	1857	15	3					
	100%	£3310	9	8		100%	£3310	9	8

In showing the percentage in the ordinary accounts of a manufacturing concern, comprising Trading account and Profit and Loss account a difficulty arises in that one of the con-

stituent elements of the sales is the stock used up. This does not appear in one sum on the debit side, but is the difference between the stock at the beginning and the stock at the end of the period. If the stock at the end is greater than at the beginning, the position is that the whole of the purchases, as shown by the debit side of the Trading account, have not entered into sales. This is often ignored, and the purchases, wages, and other costs of production only are dealt with, the percentages in connection with materials utilised being omitted.

The percentage of gross profit is then carried down to the Profit and Loss account on the credit side, and the various items on the debit side show the distribution of the gross profit and, consequently, the ratio of each item in the Profit and Loss account to sales. The following example will make this procedure clear:—

TRADING ACCOUNT.

	% on Sales.	£		% on Sales.	£
To Stock at 1/1/20		9,450	By Sales	100	16,900
Purchases	18.22	3,080	Stock at 31/12/20		5,800
Wages..	12.25	2,070			
Cartage Inward ..	.25	40			
Gross Profit	47.69	8,060			
		£22,700			£22,700

It will be noticed that the percentages in the Trading account are not totalled, seeing that it is impossible to make them total 100 per cent., as they are not all stated on the debit side. The sales (100 per cent.) are made up, not only of the wages, purchases, etc., but also of £3650 of stock used up, this being the decrease in stock for the period. In the alternative method shown later this amount of stock has been brought into account and the percentage columns on both sides of the Trading account can therefore be totalled.

PROFIT AND LOSS ACCOUNT.

	%	£		%	£
To Rent	.92	156	By Gross Profit	47.69	8060
Rates and Taxes..	1.20	204			
Salaries	3.55	600			
Trade Expenses ..	2.66	450			
Bad Debts	.83	140			
Discounts	1.18	200			
Cartage	.35	60			
Net Profit	37.00	6250			
	47.69	£8060		47.69	£8060

By setting out the Trading account in a slightly different form from that commonly in use, the complete percentages can be shown in the Trading account, and, where it is desired to supply accounts showing such percentages, this form of presenting the Trading account is recommended:—

FORM OF TRADING A/C TO FACILITATE PERCENTAGE CALCULATIONS.

	%	£	£		%	£
To Stock, 1/1/20		9,450		By Sales	100	16,900
Purchases		3,080				
		12,530				
Less Stock at 31/12/20		5,800				
Materials used	39.83		6,730			
Wages	12.25		2,070			
Cartage Inwards	.23		40			
Gross Profit..	47.69		8,060			
	100.00		£16,900		100	£16,900

Percentage of Cost per Unit of Output.—In most businesses the percentages are calculated on the amount of sales, that amount being the unit of calculation. In some undertakings, however, the percentages are most useful if the basis adopted is the unit of production. In a bacon factory, for example, the percentage of cost "per pig" is usually adopted as being the most convenient unit of calculation. In a gas company the unit adopted is usually a given number of cubic feet of gas sold, whilst in the case of an electric lighting company, the charge for the sale of current is made on the basis of what such company terms a "unit." This point is perhaps sufficiently dealt with by the foregoing explanations and the following example of the Revenue account of an electric lighting company, showing percentage calculations in parallel columns, those in one column being the percentage of cost, based on the amount of sales, and, in the other, the percentage of cost based on the number of units sold.

REVENUE ACCOUNT OF ELECTRIC LIGHTING COMPANY.

	% on Sales.	Cost per unit in pence.	£		% on Sales.	Selling Price per Unit in pence.	£
To Cost of Generation	20.51	.366	1,600	By Sales of Current— 1,052,600 Units	100%	1.778	7,800
„ Cost of Distribution	16.64	.296	1,300				
„ General Power House Expenses	10.25	.183	800				
„ Office Expenses	7.69	.137	600				
„ Management Expenses	5.13	.091	400				
„ Legal Charges	.64	.011	50				
„ Depreciation	2.56	.046	200				
„ Net Revenue	36.58	.648	2,850				
	100%	1.778	£7,800		100%	1.778	£7,800

CHAPTER XXVII.

COSTING AND COSTS ACCOUNTS.

This is a subject which is receiving more attention each year and the recognition by manufacturers of the practical utility of costing systems makes it necessary that the Public Accountant should acquaint himself with the principles of costing, as he may be called upon to instal such systems in manufacturing and other businesses.

Although there are numbers of excellent text books which prove of use to the practitioner, dealing with cost accounts, the average student seems to get the impression that the subject is one "compassed about with a cloud" of mystery. The trouble is apparently due to the fact that, in the text books referred to, the writers have selected as the basis of their explanations the costing systems connected with large businesses, and, in order to ensure that the systems described will be complete, they have had to explain the detailed working of such systems, with the result that the principles have necessarily become more or less obscured. To a student endeavoring to master the principles of such accounts therefrom the effect is much the same as it would be if he essayed to learn the principles of double-entry by studying the bookkeeping system of a large banking institution.

Another pitfall to the average student is the practice of describing the various methods of ascertaining costs in such a way as to give the impression that each of these methods entails the necessity of keeping a distinct set of accounts. References are frequently made to Terminal Cost accounts, Multiple Cost accounts, Process Cost accounts, Departmental Cost accounts, Output Cost accounts, Single Cost accounts, etc., but, as a matter of fact, with the exception of the first-named, none of the above methods of costing requires any separate system of accounts, and to this extent the terms applied thereto are apt to be misleading.

Where it is desired to keep Terminal Cost accounts so as to enable such accounts to be balanced, this necessitates the keeping of a separate Cost Ledger, but, with this exception, the whole of the information required for costing purposes can, by a proper arrangement of the accounts, be ascertained from the ordinary financial books in the manner explained later. It will be understood, therefore, that where the term

"Cost Accounts" is used herein it will refer to what are commonly known as Terminal Cost accounts. The term "costing" will be used in connection with the other methods named, as this more accurately describes their nature.

To anyone possessing a working knowledge of double-entry the principles of Cost accounts should present no difficulty—the difficulties will arise when it is sought to apply the principles in a practical manner by installing a costing system in some particular business. In addition to a knowledge of the principles this will call for the exercise of a good deal of originality on the part of the designer, as the system in no two businesses will correspond. It is hoped that the method of explanation adopted, together with the examples supplied, will enable anyone who has had no experience with this class of accounts to understand the principles. The necessary originality must, of course, be supplied by the reader as occasion demands.

Object of Cost Accounts.—A proper system of Cost accounts is a very necessary adjunct of any business where goods are manufactured or work is performed under contract and any reasonable expense incurred in connection with the keeping of such accounts will be amply repaid by the valuable information derivable therefrom. The object of keeping these accounts is to enable the proprietor to ascertain the expenses incurred and the profits or losses made by him on the various contracts entered into. This information will serve as a guide to him when tendering or quoting for work of a similar nature in the future. Such accounts are useful in businesses of the nature of Shipbuilders, Engineers, Building Contractors, Printers, and in manufacturing concerns where goods are manufactured under contract.

General Procedure.—As the object of keeping Cost accounts is to enable the cost of profit or loss on each contract to be ascertained, it is necessary that provision should be made for apportioning the expenses of the business over the various contracts undertaken. For this purpose a separate ledger is used, called either "Contract Ledger" or "Cost Ledger," and there will be opened therein a separate account for each contract. Against such account will be charged all expenses directly incurred in connection with the contract in question, such as materials and wages, and it will be credited with the contract price.

At this stage the balance of the account will represent the gross profit, but, if it is desired to arrive at the amount of the net profit, it will be necessary to charge also against the account a due proportion of the whole of the remaining ex-

penses of conducting the business. This charge (known as Oncost) must be made to cover every expense, with the exception of those which are known to have been incurred on the contract itself, and which are, therefore, capable of being debited direct to the Contract account.

Some trouble is usually experienced in arriving, firstly, at the most satisfactory basis upon which to charge Oncost against each contract and, secondly, in ascertaining the exact percentage to be charged when such basis is decided upon. In some cases Oncost is charged by way of percentage on the total direct expenses already debited to the Contract account. In other cases the Oncost is charged on a time basis, i.e., the remaining expenses of the business are reduced to a cost of running per hour and the Contract account is debited with a proportion of such expenses, according to the number of hours the work has taken.

As a rule it will be found that the most satisfactory method is to divide the expenses under two headings, viz., Factory and Office, and to charge Factory Oncost by way of a percentage on the amount of direct wages charged against the contract. Office Oncost, which will cover the administrative expenses of the business, including Office Rent, Salaries, Advertising, Commission, etc., will then be provided for by a percentage on the Factory Cost, i.e., the prime cost plus Factory Oncost.

It will be clear, however, that no general rule can be laid down as to the basis upon which Oncost should be calculated, as, in the different classes of business, the circumstances vary. In some concerns a combination of the three methods given above is adopted, some overhead charges, such as depreciation, being based on the wages, others, such as rent and unproductive wages, which are actually paid on a time basis, being charged according to the time occupied on the job and others, again, are charged as a percentage on the total prime cost. The object in every case is the same, viz., to arrive as accurately as possible at the correct amount to be charged against each job for indirect expenses.

Having charged the Oncost to a Contract account the balance of the account will then show the amount of net profit made or net loss incurred thereon. This result may not be strictly accurate as the wages and general expenses of a business fluctuate from time to time. The percentage of Oncost should be tested frequently and any variation provided for without loss of time.

From the above it will be seen that it is possible to keep the Contract Ledger distinct altogether from the financial

KEEP CLEAN.

COST SHEET.

Date 12 June 19

No. 51,126 Quantity One Size Demy

Name James Duncan & Co. Ltd

Proof Wanted 17th June Job Wanted 21st June

Description Account Books 3 patterns, ruled & printed

No. 1 100 leaf 1/100 , ½ rough, folio'd

" 2 100 leaf 101/200

" 3 100 leaf 201/300

		£	s.	d.	£	s.	d.
MATERIAL.							
96 sheets Conqueror, Double Demy			5				
¾ yard Webbing				1			
¼ skin rough sheep, ¼ yard cloth, 3 lbs strawboard			1	5			
Marbling				3			
						6	9
Comp. Cost.	Composition—Hand		18	6			
	" Lino					18	6
	Author's Alterations						
Machine Cost.	Presswork		6				
	Ink			9			
	Bronze					6	9
Binding Room Cost.	Labour		10	8			
						10	8
Outside Work.	Electro, Stereo, Blocks, &c. ..						
	Litho						
	Ruling		11	6			
						11	6
					2	14	2
Management and Office Expenses, Rent, Wear and Tear, Delivery, &c.						13	6
Charged £ 3 15 8 24 June 19	Total Cost ..				3	7	8

books and to treat it as a statistical record of the results of the various contracts entered into. Such a method of treatment, however, is distinctly inadvisable, especially as, without adding greatly to the work, this ledger may be made to balance with an Adjustment account kept in the Private or General Ledger. In this way the accuracy of the total postings to the Contract Ledger can be verified and this tends to ensure that the Contract accounts will be more carefully kept.

Having dealt with the procedure in a general way, it is now proposed to explain how the information necessary to enable such results to be secured can be ascertained. For this purpose, and in order to enable the principles to be followed without difficulty, a system of costing adopted by a Jobbing Printer will be explained and illustrated. It should be noted that this system is incomplete, in that it does not provide for the keeping of ledger accounts for the various contracts, and it is impossible, therefore, to reconcile the results shown thereby with the financial books.

COSTING SYSTEM FOR A JOBBING PRINTER.

As each job is undertaken it is given a number and a "Cost Sheet" is headed with this number, the name of the person for whom the work is to be done, and particulars as to the nature of the work, in the manner shown in the illustration. This cost sheet will be attached to the "copy," or the instructions handed in by the customer and will follow the work through the different departments of the business.

The particulars on the cost sheet, with the exception of wages, are filled in in the different departments. For instance, the quantity of material used (but not the values) will be filled in by the employee in charge of the stores. The value of the ink used will be shown by the foreman in charge of the machinery. When the work is completed and ready for delivery the cost sheet will be returned to the office, where particulars as to wages and outside work done will be filled in. These particulars will be ascertained in the following manner:—

Wages.—On commencing work in the morning each employee is supplied with a time ticket, on which are inserted his name and check number in the manner shown in the illustration supplied. During the day he will insert on this ticket the time he has been engaged on the various jobs, the total time shown on his ticket accounting for the full time worked. At the end of each day these tickets, after being signed by

COMPOSING ROOM
DAILY TIME TICKET.

WRITE DISTINCTLY.

Check No. 14

Date 13th June 19

Name J. Jones

Name and No. of Job.	Comp.		Dis.		Author's		Altn. on Press		Unproductive	
	h.	m.	h.	m.	h.	m.	h.	m.	h.	m.
51,126 Duncan	5	30								
51,129 Jameson	1	5								
51,120 Garland Dist.	1	10								

OVERTIME.

Time 8.45 Overtime .... Total Time 8.45

Time must be filled in when changing work

KEEP CLEAN.

S. James
Foreman

This Ticket must be handed in to Foreman at finish of each day's work.

the foremen of the respective departments, are handed in at the office.

At the time when the cost sheet is first made out a carbon copy is taken of the particulars on a "Work Docket," which is retained in the office. These work dockets are kept on a file in the order of the job numbers. Each day the time worked by the employees on the various jobs will be entered, as shown by the accompanying illustration, from the daily time tickets to the respective work dockets, the time being converted into money at the rate per hour paid to the various employees. One workman may have been engaged on several different jobs during the day, so that the total charge for his time will be spread over several work dockets. When a job is completed the work docket will show the total charge which is to be made on the cost sheet for wages in each of the various departments.

Outside Work.—The cost of outside work, such as the making of blocks or for ruling, is ascertained from the invoices received, and any such charges will be shown on the cost sheet.

Cost Sheet.—When the cost sheet is returned to the office on the completion of the job the materials shown to have been supplied will be priced and extended, the wages will be transferred from the corresponding work docket, the cost of any outside work ascertained and inserted, and the total of the items will show, at this stage, the prime cost. In the specimen shown it will be seen that the direct cost of the work, including materials, wages and outside work, is £2 14s. 2d. This is the "prime cost" of the job, but the actual cost cannot be ascertained until a charge has been made to cover the general expenses of the business. In this case 25 per cent. on the prime cost has been added to cover Oncost. If Oncost had been charged on the basis of wages paid on the job the amount would have been ascertained by taking a percentage equivalent to 38.4 per cent. on the wages shown on the cost sheet.

The total cost of this job, after adding the Oncost. is £3 7s. 8d. The price to be charged to the customer is £3 15s. 8d., so that the net profit is 8s.

It will be understood that the system above described, of charging each workman's time against the various jobs every day, would be impracticable if a large number of employees were engaged, but this method works satisfactorily in a small business, and it has the advantage of enabling the cost of any job to be ascertained without any variation of the system on the day when the work is completed.

OFFICE.

KEEP CLEAN

WORK DOCKET

Date 12th June 19

No. 51,126 Quantity one Size Demy

Name James Duncan & Co. Ltd.

Proof Wanted 17th June Job Wanted 21st June

Description Account Books, 3 patterns, ruled & printed,

No 1 100 leaf 1/100 , ½ rough, folios

2 100 leaf 101/200

3 100 leaf 201/300

Hand Composition.															Lino.			Author's Alter'n's		
No.	s.	d.	No.	s.	d.	No.	s.	d.	No.	s.	d.	No.	s.	d.	No.	s.	d.	£	s.	d.
14	11	.																		
14	2	4																		
14	2	10																		
12	2	4																		
	18/6																			
Presswork—																				
26	2																			
26	4	.																		
	6/-																			
Binding, &c.—																				
36	1	6																		
38		10																		
42	1	5																		
48		10																		
37	2	8																		
37	3	5																		
	10/8																			

The method above explained shows how a very simple system of Terminal Costing may be carried out, and it has been included more for the sake of illustrating the principles of costing than as one to be recommended for use in a business of this nature.

A more complete system would provide for the information shown on each Cost Sheet to be kept in the form of an account. In a manufacturing concern, for example, which manufactures goods both under contract and for ordinary stock the Cost accounts should be in a separate ledger and balanced with an Adjustment account in the Private ledger, and the same might be said with regard to the Cost accounts of Shipbuilders, Building Contractors, and businesses of that class. In order to show the working of Cost accounts on the double entry principle in a manufacturing concern, which manufactures goods both under contract and for ordinary stock purposes, the business of a Sash and Door Factory has been selected, and it is proposed to explain how such a system could be carried out in an undertaking of that nature.

The general procedure will be somewhat similar to that already explained, but, as a larger number of employees will be engaged at the works, and as provision has to be made for enabling the Cost accounts to be balanced, it is clear that the system must be more elaborate.

COST ACCOUNTS FOR SASH AND DOOR FACTORY.

Where the factory has undertaken to manufacture a quantity of articles of a special pattern, the office will prepare a Work Sheet setting out full particulars as to the nature of the work. This Work Sheet will be headed with the Job No. and all vouchers and documents subsequently used in connection with this job and the Job account in the Cost Ledger will bear the same number.

Materials.—This Work Sheet will be sent to the designer, who will work out the lengths and different sizes of timber required for the job. If the timber is kept in stock a requisition will be made out by the foreman of the department in which the order is to be first handled and sent in to the storeman, who will supply the necessary timber. Each such requisition should, by means of carbon sheets, be prepared in triplicate, one copy being supplied to the storeman, another handed in to the clerk in charge of the Cost accounts, the third copy being retained in the book of requisition forms. These requisitions should be numbered consecutively in triplicate, and it is advisable that each department should have its

own book. In such a case the numbers should be preceded by a distinctive initial letter, in order to enable the clerk in charge of the Cost account to know from which department the requisition originated. All requisitions must be signed by the foreman and the office should see that all information is shown distinctly thereon, and that the foremen do not allow themselves to get into careless methods in dealing with these vouchers.

The Cost clerk will file the copies of the requisitions received by him and, periodically, preferably each week, will sort the requirements into the order of the various jobs, so as to get together all relative slips. The pricing of the materials shown on the requisitions will generally be performed in the office, as such information is not always available to the storeman. When this work has been completed the Cost clerk will prepare a summary, on the same lines as the Wages Dissection Sheet shown later, for the purpose of enabling him to ascertain the total value of the materials supplied in connection with each job during the week. This summary may be kept in book form or made on loose sheets, which can be filed when completed.

Where materials other than timber are needed, e.g., glass for windows or doors, a similar requisition will be sent to the storeman by the foreman of the department requiring such materials, and the same procedure will be followed. From the summary the value of the materials supplied to each job will be posted at the end of each week to the debit of the respective Job accounts in the Cost Ledger.

Direct Materials.—Should any particular job require materials other than those in store, it will be necessary to purchase them outside. The Purchases book should be provided with an additional column to show such direct purchases, and the items contained in that column will be posted direct to the debit of the respective Job accounts in the Cost Ledger. This being the case, it is not necessary to include materials obtained by direct purchase on the Materials Summary. The treatment of the total of the direct purchases column in the Purchases book will be dealt with later.

Returns.—The storeman should be supplied with a book of "Returns" forms, printed and numbered in triplicate, and if materials which have been issued on requisition are returned as unsuitable, he should, upon receiving such materials back to store, make out a "Returns" form. One copy will be sent to the department returning the materials, another will be supplied to the Cost clerk and the third form will be retained in the book.

The Cost clerk will file such forms and will, after the "Requisition" slips have been entered on the Materials Summary, show the returns from each job in the respective Job columns in red ink. Such returns will be posted to the credit of the various Job accounts in the Cost Ledger, or may be deducted from the materials supplied as shown by the Summary, the balance being charged against the particular Job accounts.

Stock Jobs.—If materials are required for making up stock exactly the same procedure should be followed, even although complete Stock accounts are not kept. A separate series of numbers should be used for stock jobs, and, in order to obviate error these should be prefixed by a letter, e.g., S. 484.

If the materials are required for repair work about the factory the series of such work could be prefixed by the letter R., e.g., R. 84.

Wages.—In order to enable wages to be apportioned accurately it is necessary that the various workmen engaged in the factory should keep a proper record of the various jobs on which time is spent. It is generally found a difficult matter to get the average workman to do even this small amount of clerical work systematically and intelligently, and the foreman must exercise a good deal of supervision over the men under him in order to ensure that their time records are accurately kept.

A number of different methods of enabling a proper dissection of each workman's time to be made is in use, but the writer has found the use of Time Cards to be the most satisfactory. Cards are generally returned to the office in a much cleaner condition than the ordinary time sheets, and the system explained below will greatly assist in the preparation of the Wages book at the end of each week and in a dissection of the wages over the various jobs.

Each workman will, upon commencing work in the morning, be supplied with a time card ruled in the following manner:—

DAILY TIME CARD.

Check No. 54 Friday 12th June 19

NAME W. Johnston

The time shown on this card must account for the full time worked

To be handed back to Foreman at end of day.

Time commenced work 8.15 A.J. Foreman.

JOB NO.	NATURE OF WORK.	TIME COM'CED	TIME ENDED.	TOTAL TIME.
324	R/wood Doors	8.15	10.30	2¼
327	Casement Doors	10.30	12	1½
322	Pine Fanlights	12.45	3	2¼
S964	Stock Sashes	3	5	2
	OVERTIME nil	A.J.	TIME	8

On this card he will show the various jobs on which he is engaged during the day and the time spent on each. It is important that the whole of each workman's time should be accounted for and charged against some particular work, and the card should be carefully inspected in order to ensure that this has been done.

When leaving in the evening the workmen will hand their Daily Time Cards to the foreman of the department, who will initial them as being correct, and hand them in at the office. A drawer will be kept for these cards showing projecting guide cards inserted in the drawer in numerical order, these

numbers corresponding with the check numbers of the various workmen. Each workman's card for the day will be filed in front of the corresponding guide card, and, at the end of the week, the whole of his cards can be extracted from the drawer and a summary of wages prepared on another card in the manner shown below.

When a large number of workmen is engaged it is advisable, in order to save throwing too much work on to the end of the week, to transfer each workman's time daily on to his Wages Summary Card, which will be filed with his Daily Time Cards in the card drawer.

Rate 2/- O/time 3/-

Check No. 54 Name W Johnston Week ending 18th June

Job No	324	327	322	5914	330	326	336					Total
Fri	2¼	1½	2¼	2								8
Sat.		2		2								4
Mon		3½		4½								8
Tue	2¾			2¼	2½	+1 hr 1½						8 +1
Wed.					8							8
Thu.				5½			2½					8
Total	5	7	2¼	16¼	10½	½ 1	2½					44 +1
Amount	10/-	14/-	4/6	32/6	21/-	4/-	5/-					£4-11/-

The above summary illustrates how the time of each workman for the week is apportioned over the various jobs upon which he has been engaged, and shows also the value of that time which has to be charged against the various Job accounts in the Cost Ledger. This summary contains the total time worked and the amount payable to him for wages. The necessary particulars can be copied from these Wages Summary Cards into the Wages book, and this greatly facilitates the preparation of that book in so far as productive wages are concerned. It will be noted that where overtime

is worked a special memo. should be made on the card, as such time must be charged at a higher rate than ordinary.

Wages Dissection Sheet.—As a general rule, it will be found too cumbersome to debit the various Job accounts in the Cost Ledger direct from the respective workmen's Wages Summary Cards, and this can be obviated by preparing a ruled sheet so as to provide a separate column for each job upon which work has been done during the week. The total time spent by each workman on each job can be ascertained from the Wages Summary Cards and the cost of such time can be transferred to the corresponding columns on the Wages Dissection Sheet. This enables the charge for direct wages to be made against the respective jobs in weekly totals.

Stock Jobs.—Job. No. S. 964, shown on the specimen Daily Time Card and Wages Summary, is an internal order for a supply of window sashes to be manufactured for ordinary stock purposes. If complete Stock accounts are kept, an account will be opened for each stock job in the Cost Ledger in the usual way. If, however, Stock accounts are not kept, it will be necessary to include a column for stock jobs on the Wages Dissection Sheet, in order to enable the total wages shown thereon to be agreed with the productive wages in the Wages book. Under such circumstances it will not, of course, be necessary to post the totals of the various stock job columns to the Cost Ledger.

Employees may also be frequently engaged on repair work about the premises, and, in such case, a distinctive letter and number should be given to work of this class as already explained. These would appear on the Time Cards, Wages Summary and Wages Dissection Sheet. The cost of such work in wages can be transferred by Journal entry from Wages account to Repairs account.

A specimen of a Wages Dissection Sheet is shown herewith. A summary of the various columns should be prepared on any portion of the sheet where sufficient space is available. The various totals are posted from the summary to the debit of the various Job accounts, the folios being shown in the manner illustrated.

The treatment of the total wages in the financial books will be explained later.

Oncost.—The explanation up to this stage has been confined to the treatment of those expenses which are capable of being accurately apportioned over the various jobs, and

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WAGES DISSECTION SHEET.

FOR WEEK ENDING 18th June 19

319		322		323		324		326		327		330		334		335		336		339		340	
24	5 6	54	4 6	29	5 3	54	10 .	15	8 9	22	19 9	11	8 6	18	10	23	15 4	54	5	24	8 9	4	1 5 6
32	19 4	17	5 9	41	12 8	44	6 6	54	4 .	28	7 6	17	3 9			36	1 8 6	39	15 4	27	10 6	9	12 4
8	1 8 3	16	7 6		17 11	32	14 3	25	1 12 6	5	5 4	15	1 13 3				2 3 10	41	10 8	21	18 .	28	1 11 6
14	9 9	8	9 3			39	11 6	2	10 .	54	14 .	6	8 4					17	1 11 6		1 17 3	44	2 2 9
42	3 6	5	1 6 4				2 2 3	13	9 8		2 6 7	54	1 1 .					14	9 6				5 12 1
9	8 4	18	10 6					18	5 6				3 14 10					7	10 9				
	3 14 8	21	8 9						3 10 5										4 2 9				
			3 12 7																				

338		329		S964		S962		R86	
5	1 2 6	25	1 9 3	54	1 12 6	43	10 6	27	9 6
42	8 4			29	2 2 3	24	5 .	35	18 9
34	1 11 6			18	9 4		15 6	12	5 6
14	2 2 4			14	4 6				1 13 9
18	4 6			8	3 .				
20	5 4			21	3 9				
29	1 9 3			19	1 8 6				
	7 3 9				6 3 10				

Summary

Job No.	Amount	Cost Led. Folio	Totals
319	3 14 8	94	
322	3 12 7	97	
323	17 11	98	
324	2 2 3	99	
326	3 10 5	101	
327	2 6 7	102	
330	3 14 10	105	
334	10 .	109	
335	2 3 10	110	
336	4 2 9	111	
339	1 17 3	114	
340	5 12 1	115	
338	7 3 9	113	
329	1 9 3	104	42 18 2
S 964	6 3 10		
S 962	15 6		6 19 4 Stock Jobs
R 86	1 13 9		1 13 9
			£51 11 3

it now remains to consider further the question of the estimated charge to cover all indirect expenses, a due proportion of which must, as has likely been seen, be borne by each job undertaken.

Where possible, it is advisable to keep factory overhead expenses, such as salaries, unproductive wages, rent, lighting, etc., separate from the corresponding expenses of the general office. In numbers of cases this will present no difficulty, as the factory is often situated at some distance from the office and its expenses are thus easily distinguishable. Quite frequently, however, more especially in smaller businesses, factory and office general expenses are so intermingled that this could not be done without the expenditure of more time and labor than the information is worth, and it is proposed to deal with the charging of oncost under these two sets of circumstances.

Where such expenses are kept distinct it is usual to charge oncost to cover factory expenses on a different basis from that adopted for office expenses. The amount of the factory general expenses is considered to be governed chiefly by the number of employees engaged, and for this reason it is thought that the wages paid should be the element of cost which determines the basis upon which factory oncost should be charged.

On the other hand office expenses are, to a great extent, governed by the amount of business transacted, and it is usual, therefore, to charge office oncost by way of percentage on factory cost, i.e., prime cost plus factory oncost. The following example will show the above methods clearly:—

JOB No. 482.

Cost of Materials	£300
Direct Wages	800
Prime Cost	£1,100
Factory Oncost (to cover all factory expenses including Depreciation, Salaries, Rent, etc.), 50 % on Direct Wages	400
Factory Cost	£1,500
Office Oncost (to cover all Office and Administrative Expenses). 15 % on Factory Cost	225
Total Cost	£1,725

If it is not practicable to keep factory overhead expenses and office expenses distinct, it is usual to make the one charge for oncost to cover the total of such expenses, and this

charge is commonly based on the amount of direct wages paid. Using again the example already supplied, the oncost would be arrived at in the following manner:—

JOB N. 482.

Cost of Materials	£300
Direct Wages	800
Prime Cost	£1,100
Oncost to cover all Factory and Office Expenses, 78 % (about) on Direct Wages	625
Total Cost	£1,725

When a job is completed it will be necessary, after the account has been credited with the contract price, to charge against such account the oncost and also the amount of the net profit (if any) in order to enable it to be closed off. For this purpose it is advisable to keep a Costing Day Book with the columns headed to show the amount of factory oncost, office oncost, and net profit. Any losses can be shown in the net profit column in red ink. This Day Book is necessary, in order to enable monthly totals of oncost and net profit to be ascertained without difficulty and this information is essential if the Cost Ledger is to be balanced. It is not thought necessary to supply an illustration of the Costing Day Book as this will be conducted on ordinary lines, the folio column showing the page in the Cost Ledger to which the items of oncost and profit have been posted. The treatment of the total of these columns will be dealt with later.

Cost Ledger.—In a business of the nature now being considered the usual ledger ruling would ordinarily be sufficient for Cost Ledger accounts. Where oncost is charged on the basis of wages it might be advisable to have an additional money column on the debit side, in order to enable the amount of wages charged against each job to be readily ascertained, although in most cases the same information could be arrived at by a dissection of the debit column.

In the illustration supplied herewith the Job account has been provided with an additional column on the debit side to show wages, and has been debited with oncost and the amount of net profit from the Costing Day Book. In the Cost accounts of Building Contractors and businesses of that nature it is usual to tabulate the Job accounts further by providing columns for plant, direct expenses, materials, etc., in addition to one for the wages. Unless an elaborate tabulation of the Job accounts is required, such accounts can be most conveniently kept in the form of a Card Ledger.

JOB No. 486

Wm. Jones & Co. Ltd.
Rotany Road, Sydney

Contract Price
£. s. d.
47 . 10 . –

Particulars of Job – 50 Redwood Doors, four panels, two top panels crossed; raised ovolo mould.
Size :– 6' 10" × 2' 10" × 1¾

Dr. Date Commenced 15th August 19 Finished 31st August 19 Cr.

Date 19		Particulars		Folio	Wages	Amount	Date 19		Particulars		Folio	Amount
Aug	21	To Materials	M.S.	36		20 15 6	Aug	31	By Jones & Co.	D.B.	326	47 10
		,, Wages	W.S.	41	5 4 9	5 4 9						
	28	,, Materials	M.S.	37		2 5 .						
		,, Wages	W.S	42	6 4	6 4 .						
Sep	4	,, Materials	M.S	38		1 6						
		,, Wages	W.S	43	12 9	12 9						
		Total Wages			12 1 6							
		,, Fact. Oncost (33⅓% on Wages)		124		4 . 6						
						40 3 .						
		,, Office Oncost (10% on Fact.)		124		4 . 3						
		,, Net Profit				3 6 9						
						£47 10 .						£47 10

SPECIMEN OF JOB LEDGER ACCOUNT.

Conclusion.—In the foregoing explanation no attempt has been made to show the relation between the entries in the Cost Ledger and the financial books, and this method has been adopted for the purpose of enabling the reader to confine his attention to the nature and source of the various entries which must be made in the Job accounts in the Cost Ledger. The necessary procedure to enable the Cost Ledger to be balanced and reconciled with the financial books will be explained in the next chapter. Before leaving this portion of the subject, it might be useful if a summary of the procedure already explained were given:—

(a) In order to enable Terminal Cost accounts to be kept it is necessary that a separate account be opened for each job in the Cost Ledger.

(b) Against this account must be charged the amount of wages actually paid to the workmen engaged on the job, the materials used thereon, and a charge, known as oncost, to cover the whole of the remaining expenses of the business.

(c) The Job account will be credited with the agreed price from the Day Book.

(d) The balance of the account will then represent the net profit or loss and on debiting or crediting the account with this amount it will be closed off.

(e) The amount of direct wages to be charged against each job will be ascertained by summarising and then dissecting the wages shown on the various workmen's time cards over the various jobs.

(f) The cost of materials to be charged will be ascertained (1) from the Materials Summary, which is prepared along the same lines as the Wages Dissection Sheet, and (2) from the Direct Purchases column of the Purchase Journal. Any returns of materials from a job will be shown in red ink on the Materials Summary, and such returns will be credited to the Job account.

(g) Oncost is a charge to be made against each job to cover a proportion of all the expenses of the business, with the exception of productive wages and materials. If the factory office expenses can be kept distinct factory oncost will generally be charged by way of percentage on the direct wages charged against the job and office oncost at a percentage on

the factory cost. If factory and office expenses cannot be kept distinct the one charge for oncost, usually based on direct wages, will be made.

DEPARTMENTAL COSTING.—The object of this class of costing is to enable the cost of running and the amount of net profit earned, or net loss incurred in each department of the business to be ascertained. For this purpose it will be necessary to group the sales, purchases, stock, and all the running expenses of each department in a distinct set of accounts, or, if the departments are not numerous, the same information may be obtained by tabulating the various nominal accounts of the Ledger. This matter has already been dealt with in Chapter XVII. on Departmental accounts, and reference may be made thereto.

PROCESS COSTING.—In businesses where the commodity manufactured is required to go through a number of distinct processes in course of manufacture it is often desired to ascertain the exact cost of each process. For this purpose it is necessary to treat each process as a separate department, the direct expenses incurred in connection therewith being charged against such process accounts and the general overhead expenses apportioned along the same lines as in departmental costing. It is usual also to keep a record of the number of articles dealt with, and it then becomes possible to establish a unit of production, the percentages of the various expenses being shown in the statements prepared for each process in relation to the unit of production. This matter has already been dealt with in Chapter XXVI. on Percentage Statements, and reference should be made thereto.

OUTPUT COSTING.—This method is applicable more particularly to mining concerns, e.g., a coal mine, where the expenses in connection with each stage of handling are kept distinct, and the percentage of cost in relation to each ton of coal raised, which is adopted as the unit of production, is shown in the periodical statements. Interim statements are frequently prepared from the books with the object of ascertaining whether the cost at any stage is increasing or decreasing. As this method of costing does not require any separate system of accounts it is not proposed to go further into the subject here; it is thought that anyone who has read carefully through Chapter XXVI., dealing with Percentage Statements, and the previous portion of this chapter will have no difficulty in following the above explanation.

CHAPTER XXVIII.

COSTS ACCOUNTS (Continued).—TREATMENT IN THE FINANCIAL BOOKS—MANUFACTURING ACCOUNTS.

Mention has already been made of the fact that the Cost Ledger can be made to balance with an Adjustment account kept in the Private Ledger. This Adjustment account is conducted on exactly the same lines as a Sales Ledger Adjustment account, any entries passed through the Cost Ledger during the week being posted in totals to the debit or credit of the Cost Ledger Adjustment account, as the case may be.

It will be as well to explain the various sources from which the necessary weekly totals are obtainable.

Materials.—Direct Purchases.—As already mentioned, any materials purchased specially for contracts will be entered through the Purchases Book and posted from there to the debit of the various Job accounts in the Cost Ledger. At the end of the week the following Journal entry will be passed for the total of this column:—

Cost Ledger Adjustment Account ..	Dr.	£	
To Sundry Creditors Account			£
For Goods purchased direct for Sundry Jobs for week ending—			

Other Materials.—In connection with materials supplied from the stores kept by the manufacturer, the total of such materials will be ascertained from the Materials Summary prepared at the end of each week. Any returns of materials from the various jobs will be shown on this summary, in red ink, and the following Journal entries will, therefore, be necessary in connection with the totals shown thereon:—

Cost Ledger Adjustment Account ..	Dr.	£	
To Materials Account			£
For timber and materials supplied to various jobs for week ending—			

Materials Account	Dr.	£	
To Cost Ledger Adjustment Account..			£
For timber and materials returned from various jobs for week ending—			

Wages.—The amount of wages to be debited to the respective Job accounts in the Cost Ledger will be ascertained from the Wages Dissection Sheet. It will be remembered that, in some cases, the wages shown on the Dissection Sheet are in connection with repairs, and, in other cases, with ordinary stock jobs. For reasons which will be apparent later, it is necessary to keep the productive wages distinct from unproductive. The following Journal entries will be passed in connection with the totals shown by the Wages Summary.

Cost Ledger Adjustment Account ..	Dr.	£	
Productive Wages Account	Dr.	£	
Repairs and Maintenance Account ..	Dr.	£	
To Factory Wages and Salaries Account			£
For amount of wages on contracts, stock jobs and repair work for week ending—			

Oncost and Net Profit on Contracts.—Factory and office oncost and the net profit on contracts will be posted to the debit of the various accounts in the Cost Ledger from the Costing Day Book. At the end of the month the totals of the three columns in this Day Book will be posted as under :—

Cost Ledger Adjustment Account ..	Dr.	£	
To Factory Oncost Account..			£
„ Office Oncost Account			£
„ Net Profit on Contracts Account..			£
Being Factory and Office Oncost and net profit on jobs completed during the week ending—			

Cost Ledger Adjustment Account.—This account should be tabulated, a separate column being set apart for each class of entry made therein, a total column showing the balance of the account as a whole. If it is not practicable to have this dissection in the ordinary Private Ledger the Cost Ledger Adjustment account could be kept in totals in the Ledger and the dissection made in a separate book. The object of tabu-

lating the account is to enable the totals of the various expenses charged against the respective jobs completed during the year to be ascertained, with a view of facilitating the preparation of the Trading and Manufacturing account and Profit and Loss account.

From the above explanation it will be seen that the balance of Cost Ledger Adjustment account will always equal the total of the balances of the various Job accounts in the Cost Ledger, and in this way the Cost Ledger can be balanced each week without difficulty.

As will be made clear later, the Adjustment account also acts as a combination of Trading, Manufacturing, and Profit and Loss account (in totals) for the various contracts undertaken, and the dissection of this account supplies the information required in the preparation of the annual statements.

Having explained the procedure in a general way, it is thought that the reconciliation of Terminal Cost accounts with the financial books can best be made clear by means of an illustration. For this purpose it is proposed to continue with the class of business dealt with in the previous chapter, viz, a Sash and Door Factory, manufacturing goods both for ordinary stock purposes and under contract.

Below are set out the Trial Balance and a summary for the year of the Cost Ledger Adjustment account of the Australian Sash and Door Co. This company keeps Cost accounts in connection with the various articles manufactured by it under contract. In arriving at the total cost it adds, for Factory Oncost, 33 1-3 per cent on the wages, and for Office Oncost 10 per cent. on factory cost.

The stock on hand at the end of the year was as under:— Completed Stock, £4000; Uncompleted Stock, £500; Materials on hand, £6600; whilst, in connection with the contracts, the Factory cost of the uncompleted jobs was £1200, as shown by the Trial Balance and Cost Ledger Adjustment account below.

Draw up Trading and Manufacturing account, Profit and Loss account and Balance Sheet from the information disclosed, in such a way as to supply to the proprietor the fullest information as to the percentages of profit on sales and as to the correctness of his percentages of oncost.

AUSTRALIAN SASH AND DOOR COMPANY.
TRIAL BALANCE, 31/12/20.

		Dr.	Cr.
Stock on 31st December, 1919:—			
Finished Stock	£4,300		
Uncompleted Stock	1,000		
		£5,300	
Materials and Timber Account (including Duty, etc.)		15,000	
Productive Wages		6,000	
Factory Overhead Expenses:—			
Unproductive Wages and Salaries	1,300		
Sundry Mill Expenses	130		
Fuel	40		
Rent and Taxes	450		
Repairs and Maintenance	200		
Horse and Cart Expenses	400		
Insurance on Plant and Stock	350		
Depreciation on Plant, Carts, Horses, etc.	800		
General Factory Expenses	160		
		3,830	
Office Expenses:—			
Salaries	1,800		
Rent	200		
Discounts	170		
Travelling Expenses	220		
Printing and Stationery, etc.	70		
Insurance	10		
Commission	250		
Bad Debts	100		
Depreciation on Furniture	20		
General Expenses	260		
		3,100	
Assets:—			
Plant, Machinery, and Loose Tools		7,550	
Horses, Carts, etc.		450	
Office Furniture		380	
Uncompleted Jobs		1 200	
Sundry Debtors		4,500	
Bills Receivable		750	
Bank		820	
Sales			£20,200
Factory Oncost			1,900
Office Oncost			1,570
Net Profit on Contracts			1,300
Bills Payable			1,600
Sundry Creditors			2,200
Capital Account			20,110
		£48,880	£48,880

SUMMARY OF COST LEDGER ADJUSTMENT ACCOUNT.

1920.	Dr.		1920.		Cr.
Jan. 1	To Uncompleted Jobs	£1,300	Dec. 31	By Contract Sales	£18,570
Dec. 31	„ Materials	8,150		„ Returns of Materials	150
	„ Wages	5,700		„ Uncompleted Jobs	1,200
	„ Factory Oncost	1,900			
	„ Office Oncost	1,570			
	„ Net Profit	1,300			
		£19,920			£19,920
1921.					
Jan. 1	To Uncompleted Jobs	£1,200			

It may be as well, before proceeding with the preparation of the required accounts, to explain briefly one or two matters in connection with the above Trial Balance and Adjustment account.

Uncompleted Jobs.—It will be noticed that the Adjustment account is credited with £1200, being the value of uncompleted jobs at the end of the year. A corresponding debit balance will be found in the Trial Balance under the heading of "Assets." On closing the books at the end of each financial period it is necessary, in order to enable the exact position to be shown, to arrive at the cost of any jobs which are uncompleted. The balances of the various accounts in the Cost Ledger will show the wages and materials chargeable against such jobs, but it is obvious that, in arriving at their total cost as on balance-day, it will be necessary to charge against each job its proportion of the factory overhead expenses. Entries will, therefore, be passed through the Costing Day Book and from there each of the Uncompleted Job accounts will be debited with factory oncost, based in the present case on the amount of wages already charged against the account. The total of such factory oncost will be debited to the Adjustment account and credited to the Factory Oncost account.

After posting these entries from the Costing Day Book, the balances of the various accounts in the Cost Ledger will be brought down, and the total of such balances will, by Journal entry, be debited to Uncompleted Jobs account and credited to Cost Ledger Adjustment account in the Private Ledger. This entry will close off the Cost Ledger Adjustment account, and on the first day in the new period the debit balance in Uncompleted Jobs account will be transferred to the Adjustment account. This explains how the first item on the debit side of the Adjustment account arises. The cost value of the uncompleted jobs at the end of the previous year amounted to £1300.

Wages.—The balance of the Productive Wages account represents the wages paid to workmen in connection with stock jobs. The amount of wages paid in connection with contracts has already been transferred to the debit of Cost Ledger Adjustment account. Unproductive wages are shown separately.

Factory and Office Oncost.—The credit balances in these accounts, as shown by the Trial Balance, represent the estimated proportion of the factory and office expenses chargeable against contracts. In preparing an ordinary Trading and Profit and Loss account for the business these amounts could be transferred, as shown below, to Profit and Loss

account as contras to the total factory and office expenses appearing on the debit side. This would enable the net profit in connection with ordinary stock lines to be ascertained.

Form of Trial Balance—It will be noticed that the Trial Balance is set out so as to enable the totals of the factory and office expenses to be ascertained without difficulty. The advantage of this method will be found in preparing the annual accounts.

It has already been seen that the Cost Ledger Adjustment account is, in effect, a combination of a Manufacturing and Profit and Loss account in totals, so that the Revenue account of this concern, set out in a very simple form, would appear as under—

TRADING ACCOUNT.

1919.			1920.		
Dec. 31	To Stock..	£5,300	Dec. 31	By Sales	£20,200
1920.				„ Stock on hand	4,500
Dec. 31	„ Materials used ..	8,400			
	„ Wages	6,000			
	„ Gross Profit	5,000			
		£24,700			£24,700

PROFIT AND LOSS ACCOUNT.

1920.			1920.		
Dec. 31	To Sundry Factory Expenses, including Wages, Rent, Depreciation, etc.	£3,830	Dec. 31	By Gross Profit	£5,000
	„ Sundry Office Expenses..	3,100		„ Factory Oncost chargeable against Contracts..	1,900
	„ Net Profit on Trading	1,540		„ Office Oncost chargeable against Contracts	1,570
		£8,470			£8,470

APPROPRIATION ACCOUNT.

1920.			1920.		
Dec. 31	To Balance..	£2,840	Dec. 31	By Profit on Contracts	£1,300
				„ Profit on Trading	1,540
		£2,840			£2,840

Note.—The factory and office expenses have been stated in totals in order to save space.

Assuming that the percentage of Factory and Office Oncost chargeable against the contracts is exactly correct, the above Revenue accounts would show accurately the net results of the two portions of the business. This is a matter which, however, cannot be taken for granted and the Revenue accounts will prove far more useful if drawn up so as to prove the correctness or otherwise of the oncost, and also to show

TRADING AND MANUFACTURING ACCOUNT for Year ended 31st December, 1920.

	% on Sales.	Stock Lines.	% on Sales.	Contracts.		%	Stock Lines.	%	Contracts.
To Stock and Uncompleted Goods at 31/12/'19		£5,300		£1,300	By Sales ..	100	£20,200	100	£18,570
Plus Materials used		8,400		8,000					
		13,700		9,300					
Less Stock and Uncompleted Goods at 31/12/'20		4,500		1,200					
Cost of Materials	45.54	9,200	43.62	8,100					
„ Wages	29.70	6,000	30.69	5,700					
Prime Cost	75 24	15,200	74.31	13,800					
„ Gross Profit down	24.76	5,000	25.69	4,770					
	100.00	£20,200	100 00	£18.570		100	£20,200	100	£18.570
To Unproductive Wages and Salaries ..	3.30	667	3.41	633	By Gross Profit ..	24.76	£5,000	25.69	£4,770
„ Sundry Mill Expenses	.33	67	.34	63					
„ Fuel	.12	21	.10	19					
„ Rent and Taxes	1.14	231	1 18	219					
„ Repairs and Maintenance	.51	103	.52	97					
„ Horse and Cart Expenses	1.01	205	1.05	195					
„ Insurance on Plant and Stock ..	.89	180	.91	170					
„ Depreciation on Plant, Machinery, etc.	2.03	410	2.10	390					
„ General Factory Expenses	.40	82	.42	78					
Total Factory Expenses ..	9.73	1,966	10.03	1,864					
„ Manufacturing Profit..	15.03	3,034	15.66	2,906					
	24.76	£5,000	25 69	£4 770		24.76	£5,000	25 69	£4,770

the percentages of profit and expenses on sales for comparison with previous years. The proper method of setting out the Revenue accounts, to comply with the requirements stated previously, is shown herewith, and reference should be made thereto.

The amounts of income and expenditure in connection with the stock lines and contracts are shown side by side, and this, as will be seen, supplies very useful information.

The items in the Revenue accounts in connection with contracts are obtained by a dissection of the Cost Ledger Adjustment account. The source of the amounts in the first portion of the Trading and Manufacturing account is, of course, perfectly clear, but those in the second portion and in the Profit and Loss account may require some explanation.

Trading and Manufacturing Account.—In the first portion of the account the only difference between this and the usual form is in the method of setting out stock and materials, the stock and materials on hand at the end of the year being treated as a deduction from the stock at the beginning plus purchases. This system is fully explained in Chapter XXVI., on Percentage Statements, and the reasons for this form of statement where it is desired to show percentages are dealt with fully.

Coming now to the second portion of the Trading and Manufacturing account, it will be noticed that the factory overhead expenses, as shown by the Trial Balance, have been apportioned between the two departments of the business. In the Job accounts factory oncost (to cover factory overhead expenses) was provided for by charging against each job an amount equalling 33 1-3 per cent. on the wages. In arriving at the cost of ordinary stock, the same basis would, of course, be adopted, and it is clear, therefore, that the proper apportionment of factory overhead expenses between the two departments is in the ratio of the wages paid in connection with ordinary stock and contracts respectively. From the first portion of the account it will be seen that the total wages paid amount to £11,700, and the factory overhead expenses should be divided between the two departments in the proportions of $\frac{6000}{11,700}$ and $\frac{5700}{11,700}$

The percentage of wages to cover factory oncost was arrived at by estimate at the beginning of the year, but now that the year is completed the business is in a position to know what actual oncost should have been provided for. It has already been seen that the contracts have been charged with £1900 as their proportion of the factory expenses, but from the second portion of the Trading and Manufacturing

PROFIT AND LOSS ACCOUNT for year ended 31st December, 1920

	% on Sales.	Stock Lines.	% on Sales.	Contracts.		%	Stock Lines.	%	Contracts.
To Office Expenses:—					By Manufacturing Profit	15.03	£3,034	15.66	£2,906
Salaries	4.70	£949	4.58	£851					
Rent	.51	104	.51	96					
Discounts	.44	89	.44	81					
Travelling Expenses	.57	115	.57	105					
General Expenses	.67	136	.68	124					
Printing, Stationery, etc.	.18	36	.19	34					
Insurance	.02	5	.03	5					
Commission	.64	131	.64	119					
Bad Debts	.25	52	.25	48					
Depreciation—Furniture	.05	10	.05	10					
Total General Office Expenses ..	8.03	1,627	7.94	1,473					
" Net Profit	7.00	1,407	7.72	1,433					
	15.03	£3,034	15.66	£2,906		15.03	£3,034	15.66	£2,906

account it can now be ascertained that the proper proportion should have been £1864, and this indicates that the various jobs accounts have been overcharged £36. The percentage charged was, however, near enough for all practical purposes.

Profit and Loss Account.—In this account the office expenses are also apportioned between the two departments of the business. Office oncost was provided for by charging against each job 10 per cent. on the total factory cost. The office expenses have been charged against the two departments in proportion to the actual factory cost as shown by the Trading and Manufacturing account. These are arrived at as under:—

	Ordinary Stock.	Contracts
Materials used	£9,200	£8,100
Wages	6,000	5,700
Factory Expenses	1,966	1,864
	£17,166	£15,664

The office expenses are, therefore, chargeable against the departments in the following proportions: Ordinary Stock $\frac{17,166}{32,830}$, Contracts $\frac{15,664}{32,830}$

The Profit and Loss account shows the amount of office expenses which should be actually borne by the various jobs at £1473. The Adjustment account shows that the jobs have been charged under this heading with £1570, a total overcharge of £97.

An error of this amount in the estimate of office expenses should call for inquiry. In this case it is found that an unexpected saving of about £100 in salaries and an equal amount in travelling expenses have been effected, which saving, apportioned between the two departments, just about accounts for the discrepancy. If the expenses are likely to remain about the same during the next year it will be advisable to reduce the office oncost to about 9 per cent.

In connection with the two Oncost accounts it will be necessary to pass Journal entries therefor transferring the proportion of the factory and office expenses to the credit of the respective Expenses accounts. For instance, of the £1900 at credit of Factory Oncost account, £1864 must be transferred in the proportions shown in the second portion of the Trading and Manufacturing account to the credit of the various Factory Expenses accounts. Similarly £1473 must be transferred from Office Oncost account to the credit of the various Office Expenses accounts in the proportions shown in the Profit and Loss account. The following are the Journal entries in connection with the above:—

Factory Oncost Account .. .. Dr.	£1,864	
To Unproductive Wages and Salaries Account ..		£633
„ Sundry Mill Expenses		63
„ Fuel Account		19
„ Rent and Taxes Account		219
„ Repairs and Maintenance Account		97
„ Horse and Cart Expenses		195
„ Insurance Account		170
„ Depreciation Account		390
„ General Factory Expenses Account		78

Being proportion of Factory overhead expenses transferred against Factory Oncost Account.

Office Oncost Account .. .. Dr.	£1,473	
To Salaries Account		851
„ Rent Account		96
„ Discount Account		81
„ Travelling expenses		105
„ Printing and Stationery		34
„ Insurance		5
„ Commission		119
„ Bad Debts		48
„ Depreciation		10
„ General Expenses		124

Being proportion of Office expenses transferred against Office Oncost Account.

The above entries will leave balances of £36 in Factory Oncost account and £97 in Office Oncost account. These balances, which represent the over-estimates of such expenses, should be transferred to the credit of Net Profit on Contracts account, bringing the balance of that account to £1433, to correspond with the net profit on contracts as shown by the Profit and Loss account.

Cost Accounts of Building Contractors, Shipbuilders, etc.—The principles already explained apply to concerns of this class, although, as will be understood, some slight variations in the procedure will be caused by the different circumstances. In such businesses, for example, the value of the plant used on a job is charged against the Job account and, when the work is completed, such plant is valued and an entry passed crediting the Job account and debiting Plant account. In this way the item of depreciation becomes one of the direct charges against the jobs. Another point at which such Cost accounts differ from those already explained is that, as all the work is done under contract, the whole of the general expenses must be apportioned over the various jobs, and the oncost added should, therefore, equal the total of such expenses.

Profits on Uncompleted Contracts.—This is a matter about which there is some difference of opinion and one in connection with which no general rule can be laid down, seeing that conditions vary in the different classes of business.

AUSTRALIAN SASH AND DOOR COMPANY.

BALANCE SHEET AS ON 31st DECEMBER, 1920.

LIABILITIES.			ASSETS.		
Sundry Trade Creditors	£2,200		Cash at Bank		£820
Bills Payable	1,600		Sundry Debtors	£4,500	
		£3,800	Bills Receivable	750	
					5,250
Capital Account on 31/12/19	20,110		Stock on Hand:—		
Plus Profit on Stock Lines	1,407		Completed	4,000	
Plus Profit on Contracts	1,433		Uncompleted	500	
		22,950			4,500
			Materials and Timber on hand		6,600
			Uncompleted Contracts		1,200
			Office Furniture	400	
			Less Depreciation	20	
					380
			Horses, Carts, etc.	550	
			Less Depreciation	100	
					450
			Plant, Machinery, and Loose Tools	8,250	
			Less Depreciation	700	
					7,550
		£26,750			£26,750

Taking by way of example the business of a shipbuilder, it is quite possible that a concern of this nature might be engaged in building the one ship during the whole of a financial period, and the work may not be completed at balancing date. If the general rule that no profit should be taken credit for until it is realised were applied literally here it would mean that such concerns would, under such circumstances, run at a large loss in one year and at a large profit in the next. It is usual, therefore, to make an estimate of the cost of completing the contract, taking into consideration the likelihood of an increase in wages and making due provision for contingencies, and in this way to arrive at the proportion of profit made on the contract at balancing date.

Progress payments are usually received by the shipbuilder during the currency of the work, and in stating the value of the uncompleted contracts in the Balance-Sheet such progress payments should be deducted therefrom, only the net amount appearing amongst the assets.

Practically the same point arises with building contractors, although, as there will, in all probability, be a greater number of contracts of a smaller amount each in hand at the same time, the necessity for a similar adjustment is not so pronounced.

Coming now to ordinary manufacturing concerns, manufacturing either partly or wholly under contract, the safer course is to value the uncompleted contracts at cost price at balancing date. In this connection cost price means the prime cost plus factory oncost, and the necessary adjustments will be made in the manner already indicated in this Chapter.

MANUFACTURING ACCOUNTS.—An illustration has already been given in this Chapter of the method of drawing up the annual accounts where a manufacturing business supplies the goods direct from the factory to the customers. A manufacturer's Trading account should contain on the debit side only those expenses which form part of the prime cost of manufacturing. Where, however, the business is divided into two portions, i.e., factory and warehouse, and the factory supplies the whole of its output to the warehouse for sale, it is advisable to present the accounts in such a way as to enable the separate results of the two portions of the business to be arrived at.

In some cases the factory supplies goods to the warehouse at actual cost, and the knowledge as to whether the

factory is being efficiently run can only be ascertained by reference to the amount of profit made by the warehouse. If the factory has been turning out goods at a low rate, then the warehouse profits will be higher than they would be if it were under the necessity of purchasing its goods elsewhere. If, on the other hand, the factory is not obtaining good results and the cost of manufacturing is higher, the profits of the warehouse will be proportionately lower than they should be.

It is clear that this method of arriving at results is far from satisfactory. The factory may be turning out its goods at a reasonable rate, but the warehouse expenses may, owing to mismanagement, be higher than they should be, and in such a case the amount of net profit may be smaller through no fault of the factory, although it would probably have to bear the blame.

It will prove more satisfactory in practice to make provision for the ascertainment of the results of the factory and the warehouse separately. The two departments of the business should be conducted as separate ventures, the factory supplying the goods to the warehouse at the prices which the warehouse would have to pay outside factories. In this way the profit which the factory makes, at current manufacturing prices, is readily ascertainable, and the warehouse is also put in the same position as one having to buy from outside sources. It is thus under the necessity of making its own profit.

One objection which has been urged against this method is that the goods in the warehouse at stock-taking will be valued at more than actual cost, seeing that these carry a percentage for factory profit. Assuming that the goods are of a saleable quality, there can be no objection to this course being followed, because, if the warehouse were under the necessity of buying the goods elsewhere, it would have to pay the same prices as those charged by its own factory. Under such circumstances the stock could hardly be considered to be overvalued.

In order to enable the results to be shown separately, it is, of course, necessary that the factory and warehouse expenses should be kept entirely distinct. At the end of the year a Manufacturing account will be prepared to show the profit made by the factory. This account is credited with the factory value of the goods supplied to the warehouse and debited with all expenses, such as materials used, wages, freight, rent, depreciation, factory salaries, etc. The balance will show the net profit earned by the factory, and this profit, called "Profit on Manufacture," is transferred to Profit and Loss account.

A Trading account is prepared for the warehouse upon the usual lines. In place of the usual purchases this account will be debited with the value of the goods obtained from the factory, the amount agreeing with the credit to the Manufacturing account.

The following example will show the nature of the items to be included in such accounts:—

EXAMPLE.

The Directors of the Stock Food Co., Ltd., require Manufacturing, Trading, and General Profit and Loss accounts prepared. The warehouse treats the factory as a supplier, crediting it with goods delivered to it at a price which should show a profit. The following were the Ledger balances on 31st December, 1920:—

Unmanufactured Stock	£500	
Purchases by Factory	2,500	
Wages	2,300	
Factory Rent	250	
Rent of Plant	100	
Electric Power and Light	50	
Factory Manager's Salary	300	
Goods Received from Factory	7,500	
Factory Account		£7,500
Stock-in-Trade Account	1,000	
Sales		11,000
Advertising	810	
Carriage and Freight	214	
Samples	186	
Travellers' Expenses and Commission	1,120	
Warehouse Rent	400	
General Expenses	118	
Salaries	852	
Discount and Interest		180
Nominal Capital (fully paid)		2,000
Sundry Debtors	2,274	
Bank Account	416	
Sundry Creditors		210

Bad Debts were £270. Unmanufactured Stock, £670. Manufactured Stock £1,120. Prepare Manufacturing, Trading and Profit and Loss Accounts.

SOLUTION.

MANUFACTURING ACCOUNT.

To Unmanufactured Stock	£500	By Goods to Warehouse	£7,500
„ Purchases by Factory	2,500	„ Unmanufactured Stock	670
„ Manufacturing Wages	2,300		
„ Factory Rent	250		
„ Rent of Plant	100		
„ Electric Power and Light	50		
„ Factory Manager's Salary	300		
„ Manufacturing Profit to Profit and Loss A/c			
	£8,170		£8,170

TRADING ACCOUNT.

To Stock	£1,000	By Sales	£11,000
„ Goods from Factory ..	7,500	„ Stock	1,120
„ Gross Profit to Profit and Loss Account	3,620		
	£12,120		£12,120

PROFIT AND LOSS ACCOUNT.

To Salaries	£852	By Manfacturing Profit ..	2,170
„ Rent	400	„ Gross Profit	3,620
„ Travellers' Expenses and Commission	1,120	„ Discount and Interest ..	180
„ Advertising	810		
„ Carriage and Freight ..	214		
„ Samples	186		
„ General Expenses	118		
„ Bad Debts	270		
„ Net Profit	2,000		
	£5,970		£5,970

CHAPTER XXIX.

STORE AND STOCK ACCOUNTS.

STORE ACCOUNTS.—These are accounts kept to record the quantities or values of stores received, stores issued, and the balance on hand at any given date. The question as to whether such accounts should be kept in quantities or in values is one which will depend upon the class of stores used, but as a general rule it will be found simpler to keep such accounts in quantities. Store accounts are not necessarily a part of the costing system, although, as a general rule, it will be found advantageous to keep a record of the stores, as this provides a means of checking the employee in charge of the materials.

The distinction between stores and stock is that the former consists of the materials used during the process of manufacturing for contracts or for ordinary stock purposes, whilst the term "stock" denotes the finished goods ready for sale.

Where only a few different classes of materials are used in manufacturing, the necessary record of stores can be kept in a simple manner by using a Stores Inward Book, to record such materials as are purchased, and a Stores Outward Book to record the materials issued to the various departments. These books can be tabulated, a separate column in each being used for each class of stores dealt with. The Stores Inward Book will be written up from the carters' delivery notes received when the goods are delivered at the factory, whilst the Stores Issued Book will be written up from the requisitions received from the various departments. The difference between the corresponding columns in the Stores Received and the Stores Issued Books will represent the quantities of the different classes of stores on hand, and, at stocktaking, these should correspond with the actual materials.

In practice it will generally be found that small discrepancies will arise in the quantities, especially if the stores are of such a class that they are required to be recorded in weights. If the record is kept in numbers there is no reason why these should not be balanced exactly.

Where the different classes of materials used in manufacture are too numerous to enable a sufficient record to be kept by tabulating the Stores Issued and Stores Received

Books, it is advisable to keep, instead of these books, a Stores Ledger, in which a separate account will be opened for each class of materials. These accounts will usually be kept in quantities only. The debit side of the Stores Ledger will be written up from the carters' delivery notes received when the goods are delivered at the factory. These delivery notes should be filed and periodically checked with the Purchases Book, in order to ensure that none has been omitted. The credit side of the Stores accounts will be entered from the materials requisition slips received from the different departments. These should be filed and ticked off each week with the Materials Summary prepared by the costing clerk.

It is not thought necessary to supply an illustration of a Stores account, as this will be very similar to a Stock account, an example of which is given in this chapter.

STOCK ACCOUNTS.—Whilst Stores accounts will only be kept by manufacturing concerns, Stock accounts are applicable to almost every class of business, both trading and manufacturing. In certain businesses it must be admitted that the keeping of efficient Stock accounts is impracticable—e.g., those businesses which keep large and varied stocks of goods which in themselves are of little value. In such concerns the only method of enabling any check to be placed on the stock is by a comparison of the percentage of gross profit on the sales in each year. In concerns which deal in larger quantities, where the lines are not so numerous, or where the articles, although numerous, are valuable, stock accounts will prove extremely useful.

Jeweller's Stock Book.—Taking, for example, the case of a jeweller, it is vitally important that an accurate record should be kept of all stock purchased and sold, as the nature and size of the goods dealt in render them particularly liable to peculation on the part of employees and others. In some firms of jewellers very elaborate Stock accounts are kept, and these concerns find that, although the expense of keeping such accounts is fairly heavy, a considerable saving is effected, as any theft or other loss of stock can be discovered with certainty, and the person responsible located. An illustration of a jeweller's Stock Book is supplied herewith. This book provides for a very complete record of each item of stock received into the establishment, the stock disposed of being marked off each day from the sales dockets prepared by the different salesmen.

A separate page, or set of pages, is set aside for each line of goods, and when an invoice is received for goods purchased the items on the invoice are entered under the various headings in the Stock Book, a separate line being used for

JEWELLER'S STOCK BOOK. 42

Silver Cigar and Cigarette Cases

Stock Nº	Mount Book Folio	Shipment	Description	Ref Nº	Cost	Stocktaking—Decr 1912	1913	1914	1915	1916	Date of Sale	Selling 1912	Selling 1913	Selling 1914	Selling 1915	Selling 1916	Stock Nº	Remarks
1		2491	Sil Cigarette Case & T Turq Button	Inv 486	12 9						May 4	1 1					1	
2		"	" " " "	" "	12 9	✓											2	
3		"	" " plain goldpoints	" "	1 4 6						Sep 15	2 2 6					3	
4		"	" " Empire (25)	" "	1 12 4	✓											4	
5		2497	Cigar Case line engraved	" 499	1 17 9	✓											5	

each item. The pages in this book are numbered, as are also the lines on each page. The reference number marked on each article purchased contains the page and number of line in the Stock Book. For example, the first item, shown in the specimen herewith would be numbered 1-42, and this number is recorded on the sales docket when a sale is made. When an article is sold, the date and amount of the sale are entered in the "Selling" column, under the heading of the current year.

At stocktaking, the stocktaker will call out the number of each article on hand, and the stock clerk will tick it off in the proper column for the year, in the manner shown in the illustration. If the article has been sold during the year, no tick will be made in the stocktaking column. If, after stocktaking has been completed, any article, which the "Selling" columns show as unsold, remains unticked, it is clear that this article has gone astray, and inquiry will be made.

Each day the clerks marking off the Stock Book prepare a list of the amounts entered in the "Selling" columns, and these are agreed with the sales, both cash and credit, shown in the Sales Day Book.

Merchant's Stock Book.—The above system would, of course, prove too elaborate for an ordinary merchant's business, but the next illustration shows a Stock Book kept by an electrical supplies warehouse, which is entered systematically, and proves, in practice, to be efficient for the purposes for which it is required.

A separate account is opened for each line of goods kept in stock, the debit side being written up from the various invoices received, and the credit side from the Day Book. A reference is made to the Day Book folio and to the number of the invoice sent out.

On balance-day the quantities of the various classes of stock are agreed with the various accounts in the Stock Book, and these accounts are then ruled off and the balance brought down.

Card Stock Records.—As a general rule, it will be found that the Card system is most useful for keeping stock records, as the accounts kept for the various classes of goods can, in this way, be easily located, and the division and subdivision of the different classes of stocks are facilitated. The accompanying illustration shows how the stock records of a furniture warehouse might be kept in card form. The ruling of the Stock card shown in the illustration, and the specimen entries supplied, will enable the keeping of the stock records in such a concern to be followed without difficulty.

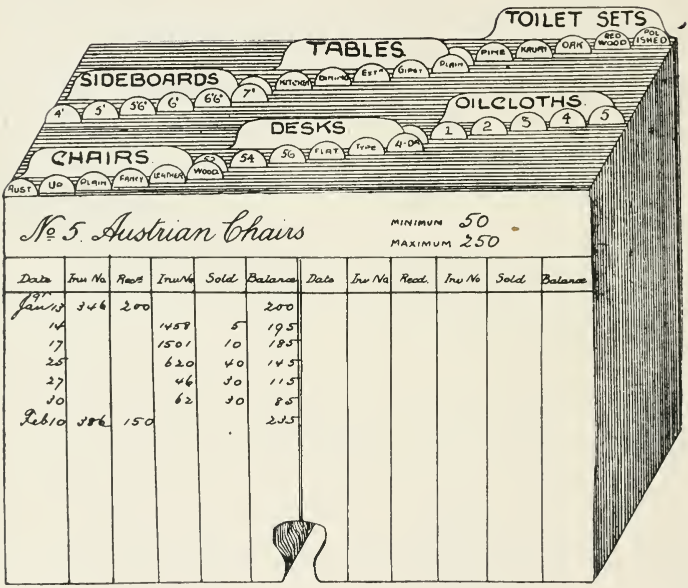
Minimum 15
Maximum 50

Dry Cells

No. —

RECEIVED									SOLD				
Date 191-		Received From	Inv. No.	F.O.B. Price	Rate of Duty	Cost	Case No	Quantity	DB Fol.	Invoice No.	Case No.	Rate	Quantity
Aug	27	Atlas Carbon Co.	486	s d 1/11	17½%	s d 2/6	6104	48	171	2486	6104	s d 3/9	12
Sep	4	James Bros. (Retn)	C.N. 43				"	1	182	2874	"	3/6	4
191' Mch	24	E.P.S. Co.	542	s d 1/11	"	"	9215	24	"	86	"	3/9	6
									183	2904	"	3/6	2
									187	98	"	3/9	6
									191	3096	"	4/-	12
									199	283	"	3/6	3
									201	339	"	3/-	3
									295	4074	9215	3/6	4
									297	168	"	3/6	2
									315	324	"	3/-	2
									191' June	30 Balance			17
								73					73
19 June	30	Balance						17					

SPECIMEN OF MERCHANT'S STOCK BOOK.



STOCK CARD FOR FURNITURE WAREHOUSE.

CHAPTER XXX.

OFFICE SYSTEMS AND TIME-SAVING DEVICES.

General.—The designing of time-saving devices in connection with office systems is work to which the Public Accountant is peculiarly adapted, although it must be confessed that he has so far adopted a conservative rather than a progressive attitude towards the many suggestions brought forward from time to time with the object of minimising clerical work. It is to be remembered, however, that he combines with his duties as Accountant that of Auditor to various concerns, and, as such, his chief thought is to ensure that any system proposed is one which a business might safely adopt, keeping in view the necessity of guarding against fraud and error.

Allowing so much, there are numerous devices which can be employed in offices without endangering in any way the safety of the general system, and the Public Accountant ought, as a business expert, to make himself thoroughly conversant with these, and be prepared to make, wherever practicable, such suggestions as will result in a saving of time and labor in those businesses where he is employed. The business man is apt to appreciate the introduction of a system which will enable him, with safety, to obtain the same results with a smaller staff, more than the usual routine work of an audit, which may proceed for years without discovering an error of a serious nature; and for this reason alone the Public Accountant should make himself conversant with the various time-saving devices and so qualify himself to introduce those which may be of value to his clients.

So far as the writer is aware, there is no text-book dealing with this subject from an Accountant's point of view. There are, of course, numbers of ready-made systems which the vendors of office furniture are prepared to supply to the classes of businesses for which they were originally designed. These do not often prove satisfactory, possessing, as they do, the disadvantages which are inherent in all articles of a ready-made description. In most cases an endeavor is made to make the business fit a system, instead of the system being prepared so as to meet the particular requirements of the concern.

Before anyone can efficiently design a system for a business he should be thoroughly trained in accounts so as to ensure that the system will fit in with all departments of the business. In partially altering the system in an office, the utmost care should be taken to see that the new portion dovetails in with the remainder of the office work, and it is just here that most cut-and-dried systems fail. The details of no two businesses are precisely similar, and the person designing a system must be capable of putting forth original ideas, in order to cope with the peculiarities of the business with which he is dealing. The adoption en bloc of a system in use by a business of the same nature will, in most cases, be found far from satisfactory. This matter may be summed up in brief by saying:—Make the system fit the business; do not attempt to adjust the business so as to make it fit some particular system.

The chief difficulty in designing a system crops up in the case of a new business. Where a business has been running for some time it is not difficult for the Accountant, by tracing transactions through the books, to acquaint himself with the nature of such transactions, and the class of entries which, under the old system, it was found necessary to pass. In this way provision can be made for the proper recording of all transactions likely to arise. In a new business, more especially one in which the exact class of transaction is perhaps problematical, the difficulties are increased considerably. The Accountant can, however, by questioning closely the proprietor or manager of the business, get a very good idea of the ground which must be covered by him, and, with this data in his possession, he should be able to provide a system which will prove satisfactory. It may be necessary from time to time, owing to changes in the conditions, to make some slight modifications, but this is only to be expected under the circumstances.

SCOPE OF THE WORK.—The scope of the Accountant's work will be confined to the records as he, naturally, cannot be expected to provide a system for the technical portion of a business. These records are commonly of two classes:—(a) Those in connection with the books of account, including costing, and (b) those in connection with other office records, e.g., the filing of correspondence, &c.; but it is not necessary to deal with the latter herein, as it usually has little to do with the accounts of a business.

It has already been explained that, as the system in no two businesses will be exactly the same, no general system of accounts can be laid down, but it is proposed to set out as briefly as possible, a number of time-saving ideas which can

be adopted as a basis upon which to work. The details can, of course, be altered so as to suit the requirements of the particular classes of business to which they may be applicable.

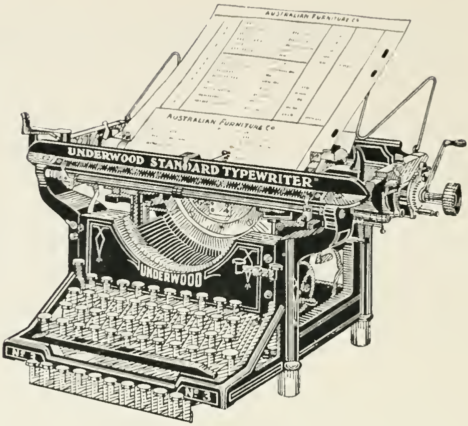
The various systems explained herein will be dealt with under two headings, viz., books of first record, such as Journals, Cash Books, etc., and books of classification, i.e., Ledgers.

BOOKS OF FIRST RECORD.—It will be understood that it is only in connection with those transactions of a frequently-recurring nature that the necessity for time-saving devices arises. It would, for example, be absurd to design an elaborate time-saving system to record transactions which occur at infrequent intervals. In an ordinary commercial house the transactions which occur most frequently are the sales, and it is in recording such transactions that any time-saving devices can be utilised to most advantage. It is considered unnecessary to explain in detail the usual procedure in connection with the treatment of sales in an office, as the reader should be thoroughly familiar with this, but it is proposed to explain two or three systems for recording sales in use amongst some of the business houses.

For Recording Sales.—Where the office possesses a typewriter a system commonly in use is one which provides for the preparation of an invoice, a carter's delivery note, and the writing up of the Day Book in one operation, by means of carbon sheets. When the invoice is typed a loose sheet, about foolscap size, is placed beneath it, so that a carbon copy of the invoice is taken on the loose sheet. When the next invoice is typed, the copy is taken a little lower down on the same sheet, the totals of the invoices being extended in each case on the right-hand side. When this foolscap sheet is filled with copies of invoices, it is placed on a file, and this file operates as a Day Book, the totals of the various sheets being carried forward from page to page.

Attached to the invoice, on the left-hand side, is a slip, somewhat shorter than the invoice itself, perforated at the point at which it is attached to the invoice form. By means of a carbon sheet there is typed on this form (which operates as a delivery note) the whole of the particulars contained on the invoice, with the exception of the price which, as already explained, is typed on the right-hand edge of the invoice, and thus misses the delivery note.

It might be mentioned that the Day Book sheets should be numbered consecutively in order to ensure that none is omitted.

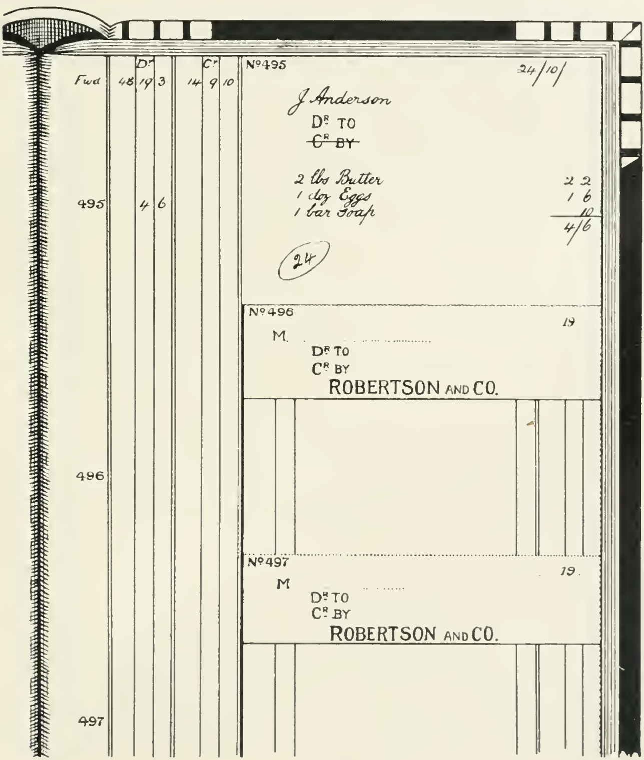


Another form of time-saving device, for use in those offices where a typewriter is not employed in the preparation of invoices, and which effects practically the same saving in time, is one introduced by the writer into several country stores, where it is working efficiently.

This book makes provision for the retention of a carbon copy of each invoice issued. This idea is, of course, familiar, but the book in question is at once longer and wider than the one in ordinary use. It is longer because it provides for at least four invoices at each opening of the book, these invoices being printed one under the other, and separated by means of a perforation. The invoices are also perforated at the fold on the right-hand edge, so that, when an invoice is prepared, it is detached by being torn downwards and across. It is possible to have more than four invoices at each opening, but, unless the invoices are very narrow, to have more than this number would make the book rather unwieldy.

The chief difference between this book and an ordinary book of invoice forms is that to the left of the invoices, near the binding of the book, are ruled two money columns, headed respectively "Debit" and "Credit." When an invoice is prepared a copy is retained on the under sheet. The total of the invoice is then extended to the debit money column, and, as soon as the page of invoices is used, this column is added and the total carried forward. At the end of the month the total sales can in this way be readily ascertained. It will be seen, therefore, that the use of such a book does away alto-

gether with the necessity for writing up an ordinary Day Book, as the name of the purchaser, and full details of the goods sold are retained on the carbon duplicates. The invoices should be numbered consecutively, the number appearing on the original invoice and on the carbon duplicate. In posting to the Ledger, this number should be inserted in the "Particulars" column, and a ready reference can thus be had to the copy of the original invoice sent out, should this at any time be required. The accompanying illustration will, it is thought, be easily understood.



The use of the credit money column may require some explanation. This column is particularly useful in the case of country storekeepers, who often receive payment or part

payment for their goods in kind—i.e., their customers may pay for the commodities supplied to them with produce, such as eggs, bacon, chaff, etc. Where the book is required to be utilised for such a purpose the invoices can be printed, as shown in the illustration, in such a way as to enable them to be utilised either as credit or debit notes, the unnecessary wording being struck out. By this means the total value of goods received from customers in payment or part payment of accounts can be readily ascertained at the end of each month.

Purchases.—These are, generally speaking, not so numerous as sales, and the call for time-saving devices is not so urgent. Undoubtedly the best method of dealing with the invoices received is to file them alphabetically, under the names of the persons from whom the purchases have been made, until the end of the month, or until the receipt of the monthly statements. These will be checked off with the invoices, and, if the statements prove to be correct, the latter can be entered in the Purchases Book and posted, in monthly totals only, to the credit of the vendors in the Bought Ledger. The statements, with the relative invoices attached, will be filed in some convenient form to facilitate ready reference.

Cash Book.—The most common means of saving time in connection with the writing up of this book is by tabulation. This is a matter which has already been explained in previous chapters, and it is not intended to go further into the matter here. In any case, the tabulation of a Cash Book is a method of time-saving with which any Accountant will be familiar.

BOOKS OF CLASSIFICATION.—The Ledgers offer the greatest scope for the utilisation of time-saving devices, as every transaction must be recorded therein. The greater proportion of the work in posting to the Ledgers lies in finding the accounts into which the various entries have to be posted. A saving of time in locating accounts can best be effected by the use of Card Ledgers, the operation of which it is now proposed to explain.

Card Ledgers.—There are no fundamental differences between a card ledger and the ordinary bound ledger. The ordinary ledger ruling may be obtained on the cards, and a separate card is set apart for each ledger account. Anyone familiar with the method of posting an ordinary ledger will find no difficulty in performing the same work with a card ledger.

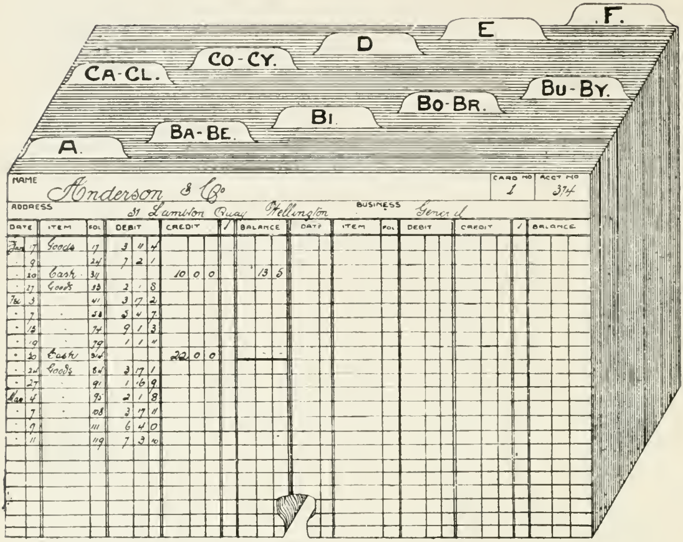
The cards upon which the accounts are recorded are kept in drawers, and are filed on edge between "guide" cards,

which have projecting tabs bearing the letters of the alphabet. These "guide" cards form an index to the ledger, and, as each account is filed in front of the particular "guide" card which bears the initial letter of the name of the account, these serve the purpose of enabling the required account to be easily located.

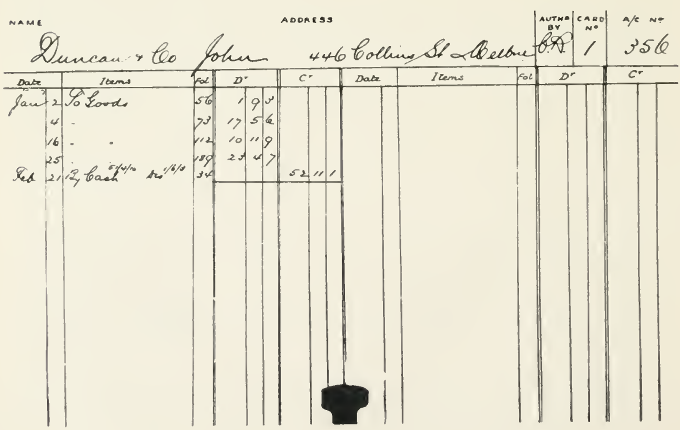
This method of arranging the index undoubtedly facilitates rapid posting of the ledger. Where only a small number of accounts is kept one "guide" card for each letter of the alphabet is sufficient, but, should the accounts be numerous, it is advisable to subdivide the alphabet and have two or more "guide" cards for each letter. For instance, the letter "C" might be split up as follows:—Ca to Ce, Ch to Cl, Co to Cy. In this way the second letter of each name is taken into account when indexing, and it will be seen that, the more "guide" cards there are in use, the easier will it be to locate the accounts. When posting to the ledger a glance at the projecting "guide" cards bearing the index at once enables the division in which the required account is to be found to be ascertained. The card is taken from the drawer, the necessary entry is made thereon, and it is returned to its proper position.

Contrast the above procedure with the routine of posting to the bound ledger In the first place the proper letter in the index must be found; secondly, the proper name must be found in the index—and, where there are perhaps fifty or sixty names under that letter, this may take some time to discover. The folio opposite the name has then to be turned up. Added to this inconvenience is the fact that it will sometimes be found that the required account has been omitted from the index owing to an oversight. When a new account is opened in a card ledger the card is headed with the name of the account and placed in front of its proper "guide" card. It is thus indexed automatically, and the necessity for writing the name and folio in a separate index is obviated.

It is advisable, where a card ledger is kept, to have two alphabetical divisions of the ledger—one for "open" accounts and the other for "closed" accounts. The first is devoted to accounts which are "open," i.e., in which there is a balance outstanding, and the second to accounts which, for the time being, have no balance. The index in the "closed" division is a duplicate of that in the "open" ledger, and, when a customer pays off the balance of his account, his card is filed for the time being in the "closed" division. When another transaction takes place with this customer, the card is returned to the "open" accounts division at the time the entry in connection with the transaction is made. This procedure, which ensures that the ledger will include only "live" ac-



CARD LEDGER (Without the Drawer).



counts, greatly facilitates the extraction of the Trial Balance and the posting to the ledger, as the fewer the cards in the ledger the easier will it be to find the required accounts when posting.

One of the chief advantages which a card ledger has over a bound ledger is that the accounts in the former can always be kept in strict alphabetical order. In opening accounts in a bound ledger a certain amount of space is set aside for each division or subdivision of the alphabet, but it is clear that, once the ledger is open, these divisions cannot be extended or contracted without disorganising the whole alphabetical arrangement. If this arrangement is to be adhered to strictly it is apparent that, as soon as one division becomes filled, the whole ledger is filled and a new one must be opened.

In a card ledger as many accounts can be provided for as may, from time to time, be found necessary. Should the number of names to be provided for be underestimated, and the space prove insufficient to hold the cards, the ledger may be divided or extended into one or more drawers without in the least disturbing the alphabetical arrangement. No limit need be placed on the number of cards inserted in any alphabetical division, seeing that the "guide" cards are movable, and whatever space may be required for each division can in this way be obtained. The accounts are thus always kept in proper order. Again, in a bound ledger, accounts which are permanently closed must be retained in the ledger, whilst, in a card ledger, they can instantly be removed and the space utilised for new accounts.

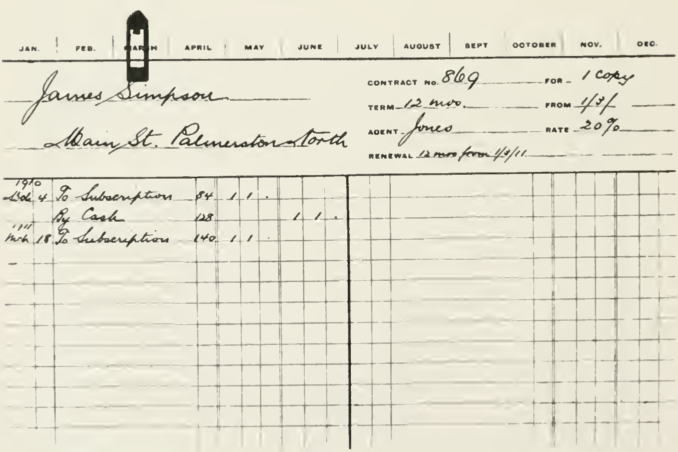
Another advantage of a card ledger is that, when the monthly statements are being prepared, the ledger can be divided amongst any number of clerks, and it is thus possible to get the monthly statements out promptly. In the case of a bound ledger only one clerk can work on a ledger at a time

As might be supposed, the many advantages of a card ledger, indicated above, must be offset by some disadvantages. One of these will be found in the lack of space available for the "Particulars" column, but this disadvantage will only be experienced in those businesses which require to post the details of sales to ledger accounts. Where the posting in detail is not necessary, there can be no doubt that the card ledger can be highly recommended for a Customers or Sales Ledger, but it is thought that the ordinary bound ledger should be used for a Private Ledger.

One objection which is frequently urged against the use of the card ledgers is that the cards are liable to get lost, as

they are to a certain extent loose and can be taken from the drawers when required. The same objection might be urged against the use of money, or bank notes; but this objection is not often heard, as every care is taken to ensure that these do not get astray. The same amount of care should be taken of the ledger cards, and it is generally found that, if proper care is exercised, the risk of a card being lost is very small. The accompanying illustration will assist in enabling the above explanation to be followed to greater advantage.

Card Ledger Diaries.—One of the principal advantages of the card ledger is that it enables other records to be combined with it. It enables, for example, the ledger to be used as a form of diary, without rendering the ledger less useful for the purpose for which it was originally intended. Take the case of a card ledger for subscribers to a monthly magazine. The card can be spaced out along the top so as to allow a small division for each month of the year. By the use of metal clips, which can be attached to the top of the cards, the cards can be made to show the month in which each subscription ends, without the necessity of examining each card in the drawer. From the illustration supplied it will be seen that the subscriber's term ends in March. As all the other cards for subscribers whose terms end in March will have similar clips attached, these clips will be projecting in a row behind or in front of the card illustrated. At the beginning of each month the book-keeper can, without difficulty, ascertain those subscribers to whom notices of expiry have to be sent.



JAN. | FEB. | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPT | OCTOBER | NOV. | DEC.

James Simpson

Main St. Palmerston North

CONTRACT No. 869 FOR 1 copy

TERM 12 mos. FROM 4/3/

AGENT Jones RATE 20%

RENEWAL 12 mos from 4/3/11

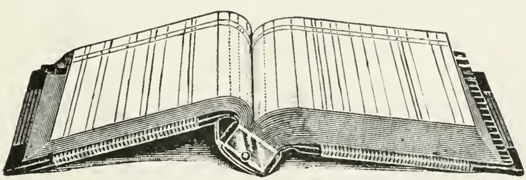
1910 Mch 4	To Subscription	84	1 1 .		
	By Cash	128			1 1 .
1911 Mch 18	To Subscription	140	1 1 .		

The same device can be used in connection with advertisers' accounts for contract advertisements in newspapers or magazines, the tabs serving to show the months when the contracts expire. In the case of a weekly paper, four or five different colored tabs can be used to indicate the different weeks in the month, blue tabs indicating the first week in the month, red tabs the second, and so on.

This method is also extremely useful in connection with time-payment accounts, more especially where the payments of all hirers are not expected to be made on the one day in the month. Frequently the payments are arranged so as to fall due in even months from the date when the purchase was made, and, where such is the case, considerable difficulty will be experienced in ascertaining whether any particular hirer is falling into arrears with his payments, unless some device along the lines of that recommended is in use. For such accounts the cards will be divided into 31 spaces along the top, and a tab will serve to show the day in the month when the payments of each hirer fall due. In the case of any hirer who does not make his payment on the prescribed date, the tab can be shifted to the next day, and the card will thus come under notice of the book-keeper when taking out the accounts on the following day.

A cross or other mark under the proper date of payment will serve to show the bookkeeper when the payment should have been made, and thus indicate at a glance the period the hirer is in arrears. The general system for such accounts is explained in Chapter XXXII.

Loose Leaf Ledgers.—These possess most of the advantages of card ledgers and practically none of the disadvantages explained under the previous heading. The principal advantages of such a ledger are, firstly, that it enables the index to be scattered through the ledger, thus facilitating the location of the accounts, and in the second place, it enables dead accounts to be eliminated and new pages to be inserted as often as may be necessary. These ledgers cannot be opened



LOOSE-LEAF LEDGER.

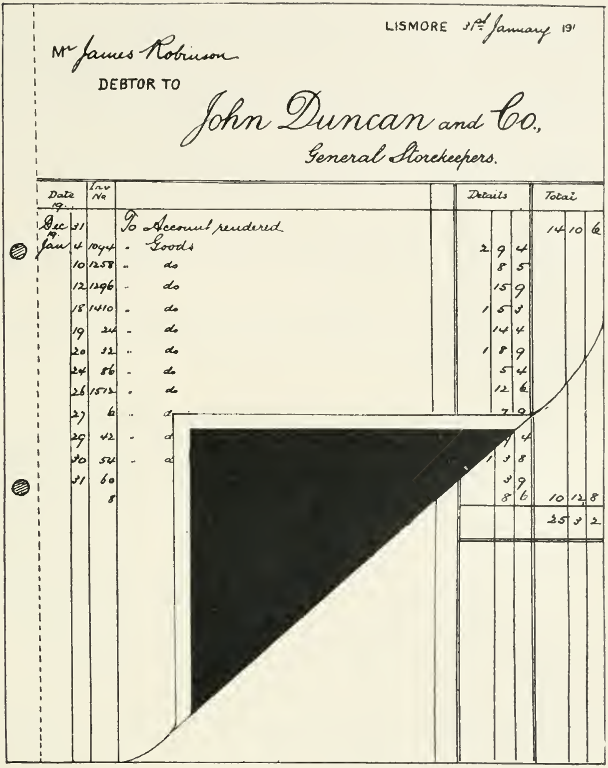
without the use of a key, which should be in the charge of the Manager or Accountant of the business. The loose sheets can also be kept by the Manager or Accountant, who should number the sheets and keep a record of the numbers of those handed to the ledger-keeper.

The Uniscript System.—The object of this system is, firstly, to save a considerable amount of detailed posting to the ledger, and, secondly, to enable the monthly statements of a business to be despatched soon after the close of each month. Any system which will combine these two advantages should commend itself to most businesses. Numerous devices have from time to time been adopted with the object of enabling the results mentioned above to be achieved.

One method, which is fairly common, provides for the insertion between the pages of the ledger at each account, as it begins to operate for the month, a monthly statement form, upon which will be entered at the time the ledger is posted each sale of goods to the customer in question. This method is inconvenient because, as the month progresses, the ledger becomes loaded with numerous loose sheets, which are apt to get out of place and incommode the bookkeeper when he is turning from one account to another. Again, although it enables the monthly statements to be despatched more promptly, it does not in any way decrease the total amount of work to be performed.

The Uniscript system has been in use in a number of businesses for some years, and has proved itself to be satisfactory in actual practice. The idea is, in brief, to make the monthly statement forms take the place, in so far as the debit entries are concerned, of the customers' ledger accounts during the month. These forms must be printed in duplicate and folded so that a carbon copy of each entry on the top form will be made on the one beneath. The form folds on the left-hand side and the top form is perforated at about half an inch from the fold, in order to enable it to be torn off with ease. A facsimile of such a statement is given in the accompanying illustration. It might be mentioned that the fold is frequently made at the top of the statement form, and the perforation half an inch from the top. This does not, of course, affect in any way the general system.

When a customer's account commences to operate during the month one of the statement forms will be headed with his name, and will be inserted in a file arranged in alphabetical order. Any sales made to that customer during the month will be posted, not to his Ledger account, but to the monthly statement form, so that, at the end of the month,



Date 19..	Inv No.		Details	Total
Dec 31		To Account rendered		14 10 6
Jan 4	1044	" Goods	2 9 4	
10	1258	" do	8 5	
12	1296	" do	15 9	
18	1410	" do	1 5 3	
19	24	" do	14 4	
20	32	" do	1 8 9	
24	86	" do	5 4	
26	1512	" do	12 6	
27	6	" d	7 9	
29	42	" d	7 4	
30	54	" d	1 3 8	
31	60		3 9	
	8		8 6	10 12 8
				25 3 2

the whole of the purchases made by that customer will be entered in the debit column on the statement form. As each customer's purchases are treated in the same way, the alphabetical file will contain, at the end of the month, the statements of all the customers, showing the sales made to them. The file should then be gone through and the items on the various statement forms totalled, but the statements are not at that stage ready for despatch to the customers.

The ledger must next be referred to and any balances outstanding for the previous month or months inserted on the respective statement forms, in order to make the statements show the total amounts owing by such customers up to the end of the month in question. At the same time, the totals

(only) of the sales to the various customers during the month, as shown by the statement forms, should be posted to the debit of the respective customers' accounts. The statements should then be taken from the file, the originals torn off and despatched to the customers. The duplicates, which should be kept in strict alphabetical order, will be labelled conspicuously with the name of the month, and filed away in some convenient form, so that they may be readily available in the event of their being required for future reference.

"Account rendered" statements will be despatched in the ordinary way to those debtors whose accounts have not operated during the month.

The advantages of the Uniscript system to those businesses which render regular monthly statements might be summarised as under:—

(a) It enables the monthly statement forms to be completed and despatched in a minimum of time, seeing that as soon as all the debit postings are completed, the statements require very little further treatment before they are ready to forward to the customers.

(b) It reduces the whole of the postings in connection with sales on the debit side of the ledger to one entry per month in each account which operates. In the case of those customers who purchase frequently a great saving of time is thus effected.

The system certainly has the disadvantage of not providing in the various customers' accounts the details of goods purchased by them, but this disadvantage is not so great as might appear at first sight. The necessity for referring to customers' accounts for details of goods supplied to them does not often arise, but when it does these details can be ascertained by referring to the file of duplicate statement forms.

It should be mentioned that all credit postings to customers' accounts will be made in the ledger as usual. Care should be exercised with regard to the Journal entries debiting customers' accounts with interest and other charges.

Tabular Ledgers.—For businesses to which this class of ledger is suitable a tabular ledger will enable a great saving in time to be effected, but, as this is a matter which has already been explained fully in Chapter XVI. it is not proposed to elaborate on the idea here.

SALES LEDGER AND LEDGER BALANCES BOOK (COMBINED).

Name	Balance Forward	JUNE					JULY					AUGUST				
		Fol.	Debits	Fol	Credits	Balance	Fol.	Debits	Fol	Credits	Balance	Fol	Debits	Fol	Credits	Balance

For wholesale businesses which utilise the Uniscript system explained above, the scope of the tabular ledger can be enlarged so as to combine a Ledger Balances Book with the Sales Ledger, and, in effect, do away altogether with the necessity for keeping a Sales Ledger in the usual form. In a wholesale business there is seldom more than one credit entry in each customer's account during a month, and, as special provision can be made for any accounts which prove an exception to the rule, they can be left out of consideration for the purposes of the system now being described.

With the utilisation of the Uniscript system it will be seen that there will not, as a rule, be more than one debit entry and one credit entry in any customer's ledger account during the month. This being the case, if additional columns are provided in the Sales Ledger Balances Book so as to make it agree with the illustration supplied herewith, the necessity for keeping an ordinary Sales Ledger will be practically done away with. The names should be entered in alphabetical order, and spaces left for the insertion of the names of new customers. The total of the column headed "Cash Received" should each month agree with the totals of the "Sales Ledger" and "Discount" columns on the debit side of the Cash Book. The total of the "Balances" column will each month agree with the balance of the Sales Ledger Adjustment account in the Private Ledger.

It might be mentioned that the above system, in conjunction with the Uniscript system, has been used in a fairly large business for the past eight years with very satisfactory results. To ensure efficient working, the bookkeeper should be competent, but, given this much, very satisfactory results can be obtained, and it is obvious that a great saving of time and labour can be effected.

Cash Registers.—The outstanding feature of the accounts of smaller retail establishments is the extreme difficulty experienced in getting the staff (principally the selling staff) to keep a systematic record of the transactions as they arise. One method of ensuring (so far as it is humanly possible to ensure anything in such concerns) that a classified record, upon which to base the book entries, will be kept, is by the installation of a cash register.

These registers are mechanical contrivances designed to enable a record of the transactions to be kept with a minimum of trouble. The amount of information supplied depends on the class of register utilised, but those which provide for a detailed classification supply the bookkeeper with a reliable record of every transaction which affects the financial

portion of the business and enables him to keep his accounts correctly, and to prepare accurate statements showing the results of trading and the position of the concern.

A register does not, of course, do away with the necessity for keeping books of account, as it provides only for a first record, but where one is in use it will generally prove a valuable adjunct of the complete bookkeeping system, or supply a basis upon which the general system can be designed. An Accountant should familiarise himself with the possibilities of these registers, as he may often find one already installed in the business for which he is asked to design a system of accounts, or he may, after inquiry, consider it advisable that the business in question should acquire a register to enable the system which he institutes to be carried out efficiently.

As already mentioned, the amount of information to be obtained from these registers depends upon the type of register used. The one most generally in use provides a separate cash drawer for each assistant, and supplies the following:—(a) The amount of each transaction recorded; (b) Total credit sales made by each salesman; (c) Total cash sales made by each salesman; (d) Total cash received on account from customers; (e) Total cash paid out; (f) Number of customers waited upon by each assistant; (g) The issue of a printed receipt to each customer; (h) Enables cash taken by each salesman to be kept in a separate locked drawer, and any error can, therefore, be located to the salesman at fault; (i) Supplies daily to the proprietor a printed detailed statement of all transactions.

Numbers of other mechanical labor-saving devices, such as adding and calculating machines, book-typewriters, etc., are in use in many of the cities and towns throughout Australasia, but as these may be seen at work by anyone it is not thought necessary to describe them herein.

CHAPTER XXXI.

RESUMPTION OF BUSINESS PREMISES UNDER STATUTORY POWERS.

Accountants are frequently required to prepare or to criticise the claims made by persons whose business premises have been assumed under statutory powers, e.g., the resumption of property by the Crown for the purposes of constructing railways or by a Municipal Council for widening streets. The claim, which should be submitted on the prescribed form, can, generally speaking, be divided under the following headings:—

(1) (a) The value of the lease, where the claimant has a lease of the premises resumed.

(b) Value of the freehold, where claimant owns the premises resumed.

(2) Loss on fixtures.

(3) Cost of removal of stock and fittings and the loss occasioned thereby.

(4) Loss of business due to the disturbance.

(a) A temporary loss during removal.

(b) A permanent loss owing to the impossibility of finding premises equally accessible to customers.

It will be seen from the above that, in order to enable a claim to be prepared, it will be necessary for the claimant to retain the services of competent valuers and that a Public Accountant will only be employed in this respect in connection with Item No. 4. As, however, an Accountant is frequently required to prepare or supervise the preparation of the statement of claim he should have some general knowledge of the subject, sufficient in any case to ensure that a proper basis has been adopted for the whole of the valuations.

It is proposed, therefore, to deal briefly with this subject under the above headings.

Value of Lease.—A claim can only be made under this heading where, at date of resumption, the rental value of the premises occupied by the claimant exceeds the amount of rent payable by him under the lease, and, as evidence of this, he should be able to show that the rental paid under his lease is low by comparison with rents ruling in the immediate vicinity, such comparison necessitating close attention to details of location, accommodation of premises, etc. The market value of the lease is ascertained by taking the present value of the additional annual rent which the premises would produce if the property were sub-let for the remainder of the term, and to this may be added a percentage for compulsory sale. Where the person whose premises are resumed is also claiming for destruction or disturbance of business the profits upon which such portion of the claim is based should be adjusted in the manner shown at the end of this chapter.

The valuation of the lease should, in most cases, be made by an estate agent conversant with local conditions relating to real estate and property.

Value of Freehold.—Where the claimant owns the freehold of the resumed property he is entitled to receive the market value of such property as at the date of resumption—i.e., the amount which a willing purchaser would, at the date in question, have had to pay to a vendor, not unwilling, but not anxious to sell (Spencer v. Com. of Aust. 1907 5 C.L.R. 418). It is also usual to claim an additional amount (usually 10 per cent.) for the compulsory sale. This is not a statutory right, but one set up by custom, and it is applicable solely to property, whether freehold or leasehold, and the fixtures attached thereto.

Loss on Fixtures.—Where the claimant owns the resumed property the value of the fixtures may be included in the valuation of the property and care should be taken to see that these items are not duplicated.

Where, however, the claimant has a lease of the property and has erected fixtures thereon the matter requires consideration.

In the absence of any agreement to the contrary any fixtures attached to the property and erected by the lessee form part of the freehold and the lessee has no right to remove

these upon the expiration of his lease. Under such circumstances, where books are kept upon proper lines, the lessee would write off the cost of such fixtures during the currency of the lease and it is submitted that, where he has not the right to remove such fixtures, he is only entitled to a proportion of the cost according to the time which has expired since they were erected and the time which the lease has to run at the date of the resumption.

For example, suppose the lessee erected fixtures, costing £80, five years before the date of the resumption and that, at the date when the premises were resumed, the lease had three years to run. He would be entitled, leaving interest out of account, to three-eighths of the cost of such fixtures.

If the tenant is entitled under his lease to remove the fixtures erected by him he has two courses open. He can require the authority to take over such fixtures, in which case he can claim compensation on the basis supplied above, or he can remove them and claim for the difference between the depreciated value and the present break-up value. As an illustration of the latter, assume that the fixtures cost £80, that they were erected five years before the date of resumption, that the lease has three years to run, that the break-up value at the end of the lease was estimated to be £16, and that the present break-up value is estimated at £20. The fixtures should be written down by 5/8ths of £64 (i.e. the difference between original cost and estimated value at the termination of the lease) the result being £40. As the claimant is taking away fixtures now valued at £20, as break-up value, he is entitled to the difference, viz., £20.

Cost of Removal.—Where a claimant owns the freehold of the business premises he is entitled to the cost of removing his stock, fixtures, etc., to new premises, and, as a general rule, a claimant is entitled to removal expenses where he has only a lease of such premises.

Loss of Business due to the Disturbance.—Ascertainment of Profits.—In order to ascertain the amount to which the claimant is entitled under this heading a Public Accountant should be employed to investigate the affairs of the business for the purpose of ascertaining the profits made during recent years. The investigation is usually confined to the three years preceding the date of the resumption.

The amount of compensation to which the claimant is entitled under this heading is generally based on the average profits earned during those years, and it is therefore necessary for the Accountant to arrive as accurately as possible at the

profits made during the period mentioned. In the case of large businesses this may not involve much difficulty, as the books of such concerns are usually kept systematically and audited regularly. It should be noted, however, that, for the purposes now being considered, it is necessary that there should be charged against the profits a reasonable amount for the services of the proprietor or proprietors and, also, interest at the current rate (say 5 per cent.) on the capital employed in the business. The amount to be claimed under this heading (in the case of a permanent loss of business) is based upon the amount of damage the goodwill has sustained by the resumption and the profits, therefore, require the same adjustment as they would if they were being arrived at for goodwill purposes.

It was decided by the Full Court (N.S.W.) in McSweeney v. The Commissioner for Railways (State Reports, N.S.W., 1914, Vol. 14, p. 18) that, where a claimant is allowed to continue to carry on business in the resumed premises after notice of resumption, it is not permissible to give as evidence of the profit-earning capacity of his business the profits earned subsequent to the date of resumption. In estimating the loss under this heading, therefore, the Accountant's attention should be confined only to the results of the trading prior to such date.

In smaller businesses, more especially those conducted by retail traders, considerable difficulty is usually experienced in arriving at the trading results, as such traders are not in the habit of keeping books upon proper lines. In numbers of cases it will be found that no record of transactions has been kept and it will be necessary for the Accountant to construct accounts from such information as is available. Care must be taken, however, to eliminate any private matters, as this class of trader almost invariably mixes his private and business affairs. It is a matter of impossibility to explain the procedure necessary where books of accounts are not kept, as the information required or available in no two cases corresponds.

The writer found it necessary, in one case, to prepare a statement along the following lines, in order to enable the sales of a particular business to be ascertained, and this will serve to exemplify the methods which it may be found necessary to adopt upon occasions:—

Statement showing method of arriving at sales from the date of commencement of the business to the date of resumption.

Total Lodgments at the Bank			£14,283 14 3
Less Cross entries and Customers' cheques dishonoured and re-presented			85 9 4
			£14,198 4 11
Less Cheques drawn for change	46 0 0		
Less Change on hand	10 0 0		
			36 0 0
			£14,162 4 11
Plus Payments from Cash:			
Rent	£194 10 0		
Wages to Employees	728 17 4		
Wages to Proprietor	285 16 0		
Cash Purchases	46 8 2		
Sundry Expenses	12 8 5		
Cost of erecting shelves and fittings	19 14 0		
Payment for Cash Register (time payment)	48 0 0		
Proprietor's drawing from cash	126 18 3		
			1,462 12 2
			£15,624 17 1
Plus Outstanding Book Debts	£494 19 6		
Book debts settled by contra	24 18 0		
			519 17 6
Total Sales for period			£16,144 14 7

Basis of Compensation.—Having ascertained the average net profits of the business it then becomes necessary to find what loss of business will be sustained owing to the fact that the premises, in which it is being carried on, are resumed. This will depend upon the extent to which the goodwill of the business attaches to its situation. In the case of a wholesale business, for example, the goodwill cannot be said to attach to the premises and the fact that such a business may be required to remove to another street will not, generally speaking, affect its profit-earning capacity. In the case of a manufacturing business it would probably make very little, if any, difference if it were found necessary to remove to another suburb.

On the other hand, cases might be quoted where the resumption of a portion of the property of a manufacturing business has resulted in the total destruction of the business, as it was agreed that other property of the class necessary to enable it to compete successfully with its trade rivals was unobtainable. Such cases are, however, exceptional, but they serve to indicate that no general rule can be laid down with regard to wholesale, manufacturing or other businesses in which the value of the goodwill does not commonly attach to the situation, and that the whole of the circumstances must be looked into and each particular case decided upon its merits.

Although, as pointed out above, the resumption of the premises occupied by a wholesale or manufacturing business may not affect the amount of business transacted, the claimant is entitled to be compensated for a temporary loss suffered during removal or whilst other suitable premises are being obtained. It may also be found that, in the most suitable premises he can obtain, certain expenses of his business will be increased. If, for example, the cost of delivery will be increased, owing to the fact that the claimant has found it necessary to remove further from the business centre, compensation for this additional expense might justly be claimed It should not be overlooked, however, that this additional expense may, to some extent, be offset by the lower purchasing or rental value of the more remote premises.

Coming now to a consideration of the effect of a resumption on a business where the goodwill attaches to the situation, the amount of compensation to which a claimant is entitled for loss of goodwill will depend on whether he can obtain other suitable premises accessible to his customers in the same locality.

If the claimant can obtain suitable premises where he will be able to retain his old customers no damage will be done to his goodwill, and his only claim will be for temporary disturbance of business during the removal. In some cases the resumption may enable him to remove to more convenient premises free of cost, but, as a lecturer once said, "This commonsense method of regarding the situation would not easily be deduced from a perusal of a claim put forward under such circumstances, which is generally framed on the principle that the claimant is not likely to be granted more than is asked."

Where the removal will result in the claimant losing a portion of his business it is a matter for agreement as to the extent of the damage to be suffered, or, failing such agreement, it is for a jury to decide. The claimant must do what a prudent business man would do to make his loss as small as possible, and he should make every reasonable effort to obtain suitable premises in the vicinity.

Where, under the circumstances now being considered, it is not possible for the claimant to obtain other suitable premises in the locality, the resumption will amount, practically, to a destruction of his business, and the amount to which he is entitled is the full selling value of the goodwill. Some deduction should, however, be made for the fact that the claimant will not be required to enter into the usual

restrictive covenant that he will not carry on a competing business in the locality, as would be necessary in the event of an ordinary sale of the goodwill. He may, for example, be able to obtain premises in the locality at a later date, and the possibility of this should be taken into account. The extent of the deduction must, of course, depend upon circumstances.

As mentioned in Chapter VII., dealing with Goodwill, the value of the goodwill of such a business carried on in leasehold premises depends, to a large extent, upon the term of the lease held by the proprietor and, in the case of a resumption, it is settled beyond question that, in arriving at the value of the goodwill, the likelihood of a renewal of the lease being granted must be excluded from consideration altogether.

Adjustment of Profits Where Value of Lease Claimed.— Reference has already been made to the fact that, where a claim is made for the value of a lease of premises in which a business is carried on, an adjustment of the profits upon which the claim for disturbance of business is based must be made. The goodwill of a business is usually stated as being worth a certain number of years' purchase. of the profits which a purchaser of such business would be likely to receive, and these profits can only be estimated by adopting as a basis the average profits earned by the vendor.

Where, however, the vendor requires the purchaser to pay a premium for the lease in addition to the goodwill, it is obvious that the purchaser's net profits will be decreased accordingly, as he is, in reality, paying rent at a higher rate than that already charged against the profits. In order, therefore, to arrive at the final net profits upon which to base the goodwill, the increased annual value of the premises must be deducted therefrom. The following example will illustrate the position explained above:—

> "A" is carrying on business, the average net profits for the three previous years being at the rate of £1000 per annum, this, after charging interest on capital and a reasonable amount for "A's" services. He has a lease with ten years to run, the rent payable being £250 per annum. It is now estimated by competent valuers that the rental value of the premises is £350 per annum. Assuming that a purchaser is willing to purchase the goodwill on the basis of two years' profits and to pay a premium for the lease, the amount payable under these two headings would be as under:—

Average Net Profits per anum	£1,000
Less Additional Annual Rent to be paid by the purchaser (included in premium below)	100
	900
	2
Two years' Purchase of Net Profits	1,800
Premium for Lease, being the present value at 5 % of £100 per annum for ten years	614
Total Value of the Goodwill and the Lease	£2,414

In a compulsory sale 10 per cent. would be added to the value of the lease as shown above, viz., £61 8s.

The total amount of claim in respect of business premises which have been resumed might be arrived at (assuming a total destruction of business) somewhat in the following manner:—

(1) Value of Lease (ten years to run)	£300	
Plus 10 % for compulsory sale	30	
		330
(2) Costs of Removal of Stock and Fittings		10
(3) Loss on Fixtures removed		48
(4) Destruction of Business (value of Goodwill calculated on basis of three years' profits after deducting increased rental value of property)		2,400
Total Claim		£2,788

Note.—If the lease is for a short term the value of the goodwill will be less than that shown. A purchaser is not likely to give three years' profits for a business where the goodwill attaches to the situation and where the lease has only, say, five years to run. In the books of a purchaser of this class of business the goodwill must be written off during the term of the lease, and the annual depreciation of this asset must be taken into account by him in assessing the value of the goodwill.

CHAPTER XXXII.

MISCELLANEOUS.

HIRE-PURCHASE ACCOUNTS AND PAYMENT BY INSTALMENTS.—A Hire-purchase Agreement is one which provides for the purchase of goods on the principle that the hirer must make periodical payments for their hire and, when these payments amount to an agreed sum, the goods thereupon become the sole property of the hirer.

Such an agreement affords greater safety to the vendor than would an ordinary sale of goods to be paid for by instalments. In the case of the former the goods, although in the possession of the purchaser, remain the property of the vendor until all the payments provided for under the hire-purchase agreement are completed, whereas, in the case of a sale on the instalment plan, the property in as well as possession of the goods vests in the purchaser upon their delivery, and he can dispose of them so as to give a good title to a third party.

Apart from the distinction above-mentioned, it will be seen that the practical effect of the disposal or acquisition of goods under either method is the same. Although, legally, a person acquiring goods under a hire-purchase agreement has no property in them until the completion of the agreement there can be no question as to the intention of the parties, and the transaction can be treated in the books of both vendor and purchaser on all fours with a sale and purchase of goods on the instalment system.

The full price provided for under such an agreement includes both principal and interest, and it is clear that the total interest will be the difference between the cash selling price of the goods in question and the actual price contained in the agreement. In the books of both vendor and purchaser the interest must be taken into account when recording the transactions if the books are to show the position accurately. It is incorrect for the purchaser to bring the articles acquired into his books at the full agreed price and to show them at that valuation in his Balance Sheet, and it is usually incorrect for the vendor to enter the full price as a sale at the time when the goods are despatched.

The exact treatment in the books will depend a good deal upon the class of business transacted, and it is proposed, therefore, to deal with the entries to record such transactions under two sets of circumstances:—

(a) Where such transactions are not numerous and amounts involved are considerable:—

Perhaps the most common illustration of this class of transaction is a sale of machinery, which is frequently disposed of on the instalment plan. As the machinery so sold is often of considerable value, it is clear that, in the books of both vendor and purchaser, the proportion of the instalments which represents interest to be paid by the purchaser must be calculated accurately, so that the correct amount may be credited to or charged against each financial period. In cases of this kind it is usual to apportion the interest over the term covered by the instalments in such a way that Profit and Loss will be credited or debited with interest on the amount outstanding at the beginning of each financial period. The exact method of treatment will be seen from the following example:—

On the 31st December, 1912, the Printers' Import Company, Limited, sold a linotype to the Australian Publishing Company, to be paid for by instalments extending over four years. The first instalment of £175 was paid on date of delivery, three instalments of £175 were duly paid on the 31st December in the next three years, and the final instalment of £135 7s. 3d. on 31st December, 1916. The cash selling value of the linotype was £750, and interest at 6 per cent. per annum has been added. Raise the accounts in the books of the Publishing Company showing how the above transaction should be recorded, and show, also, how the linotype would appear in the Balance Sheet at the end of the third year, assuming that depreciation at the rate of 15 per cent. on the reducing balance had been written off.

PRINTERS' IMPORT CO., LTD. (VENDOR'S) A/C.

Dr.					Cr.
1912.			1912.		
Dec. 31	To Cash (Deposit)	£175	Dec. 31	By Linotype A/c	750
	„ Balance	575			
		£750			£750
1913			1912.		
Dec. 31	To Cash	175	Dec. 31	By Balance ..	575
	„ Balance	431 10 0	1913.		
			Dec. 31.	„ Int. at 6 % on £575	34 10 0
		£609 10 0			£609 10 0

PRINTERS' IMPORT CO., LTD. (VENDOR'S) A/C.—(cont.).

1914.			1913.		
Dec. 31	To Cash	175	Dec. 31	By Balance ..	434 10 0
	„ Balance ..	285 11 4	1914.		
			Dec. 31.	„ Int. at 6 % on £434/10	26 1 4
		£460 11 4			£460 11 4
1915.			1914.		
Dec. 31	To Cash	175	Dec. 31	By Balance.. ..	285 11 4
	„ Balance.. ..	127 14 0	1915.		
			Dec. 31	„ Int. at 6 % on £285/11/4	17 2 8
		£302 14 0			£302 14 0
1916.			1915.		
Dec. 31	To Cash	135 7 3	Dec. 31	By Balance ..	127 14 0
			1916.		
			Dec. 31	„ Int.. at 6 % on £127/14/	7 13 3
		£135 7 3			£135 7 3

LINOTYPE A/C.

1912.			1913.		
Dec. 31	To Printers' Import Co., Ltd.	750	Dec. 31	By Depreciation (15 %) ..	112 10 0
				„ Balance ..	637 10 0
		£750			£750 0 0
1913.			1914.		
Dec. 31	To Balance ..	£637 10 0	Dec. 31	By Depreciation	95 12 6
				„ Balance ..	541 17 6
		£637 10 0			£637 10 0
1914.			1915.		
Dec. 31	To balance.. ..	541 17 6	Dec. 31	By Depreciation	81 5 3
				„ Balance ..	460 12 3
		£541 17 6			£541 17 6
1915.					
Dec. 31	To Balance ..	460 12 3			

At the end of the third year (31st December, 1915) the Linotype would be shown on the Assets side of the Balance Sheet as under:—

Linotype	£541 17 6	
Less Depreciation	81 5 3	
	460 12 3	
Less Amount due to Vendor ..	127 14 0	
		332 18 3

It will be noticed that the amount owing to the vendor is treated as a deduction from the asset, so that only the net interest of the purchaser in the linotype ranks amongst the assets.

In the book of the vendor company the disposal of the linotype will be treated as a sale at the cash selling price, the Publishing Company being debited and Sales account credited with £750. Each year the purchaser will be debited with interest on the balance outstanding and credited with instalments paid. The Publishing Company's account in the Import Company's books will contain the same entries, in a reversed form, as the account for the vendor illustrated above.

One method of recording a hire-purchase transaction, which is sometimes recommended, requires that no entries should be made in the books of the purchaser until an instalment is paid. Each instalment will then be apportioned between capital and revenue, the amount paid on account of principal being debited to the Asset account and the balance charged as interest. The reason given for preferring this system to that already explained and illustrated is that, as the hirer has no legal property in the goods until all the instalments are paid, and is under no legal obligation to continue the instalments if he chooses to return the goods, the method illustrated above results in the creation of a fictitious asset and a corresponding fictitious liability in the books. Looking at the matter from a strictly legal standpoint and ignoring the actual intention of the parties, this may be so, but the exponents of the system explained in this paragraph are, if the same test is applied, inconsistent in stating that any portion of the instalments paid should be capitalised and shown as an asset until all payments are completed.

On the whole it is thought that a method which provides for a record of all the facts in ledger accounts is to be preferred to one which requires that the agreed price should appear as a memorandum only, and necessitates a calculation each time the proprietor or manager desires to know the amount of the unpaid balance.

(b) Where such transactions are numerous and the amounts involved are, comparatively, small:—

In designing a system for recording any particular class of transactions every care must be taken to ensure that it is practical, a point which is too frequently lost sight of. Some of the systems recommended for concerns which have a large number of hire-purchase transactions would, in actual practice, break down under their own weight, as the cost of keeping the accounts in the manner described, with any degree of accuracy, would be prohibitive.

Taking, for example, the case of a large furniture warehouse, selling the bulk of its furniture on the hire-purchase

system, it will readily be seen that it would be impracticable to expect such a concern to apportion accurately between principal and interest the payments made by its customers, as the accounts of such customers frequently run into thousands, and, in addition, few of the customers keep right up to date with their instalments. Enquiries elicit the information that most of such concerns make no attempt at carrying forward any proportion of the interest charged, the full selling prices being credited to Sales account at the time the transactions take place. This is clearly incorrect, and the result is that their profits are over-stated to the extent of the interest unearned at balance-day. Although it may be impracticable to divide the instalments paid by each customer, this is no reason why some attempt should not be made to adjust the interest from year to year.

As pointed out in dealing with Insurance Companies' accounts (Chapter XXI.), Fire, Accident and other Insurance Companies of that class carry forward a proportion of each year's premiums, ranging from about 33 per cent. to 40 per cent. of the total. This, although not strictly accurate, is near enough for all practical purposes, and an adjustment along the same lines might be made in connection with the accounts of concerns doing a considerable business on the hire-purchase system.

The Day Book should be ruled so as to show, in connection with each hire-purchase transaction, the cash selling price, the total interest added, and the total agreed price. If discretion is exercised in the selection of customers and a reasonable deposit is required in each case, there can be no objection to treating the cash selling price as a sale at the time of the transaction.

Date.	Agreement No.	Particulars.	Folio.	Cash Price. £ s. d.	Interest. £ s. d.	Price as per Agreement. £ s. d.

Items in the last money column will be debited to the respective customers, and, at the end of each month, the total of the cash selling value of the goods will be credited to the Sales account and the total of the second column to Interest account.

At the end of each financial period a proportion of the total interest charged should be carried forward to the next

period. What this proportion should be will depend upon circumstances, but the writer estimates that, in most concerns, if 50 per cent. of the total interest charged during the year be carried forward to the next period the result will show the position fairly accurately. This estimate was checked in detail over the accounts of a concern doing a large business on the hire-purchase system and was proved to be sufficiently accurate for all practical purposes. The rate will, of course, depend on the period over which the greatest proportion of the payments extend. but, assuming the usual terms of payment, it is thought that the estimate supplied will show a satisfactory result.

A system for keeping the personal accounts of the hirers is explained in Chapter XXX., under the heading of "Card Ledger Diaries."

REDEEMABLE DEAD RENTS.—Where a Colliery company leases the property on which the mine is situated the landlord is frequently paid by a royalty of so much per ton on the coal extracted from the mine. Provision is also usually made that a minimum royalty, or, more correctly speaking, rent must be paid by the company, whether the mine is being worked or not. If the amount of the royalty on the coal extracted exceeds the minimum rent the rent is merged into the royalty and is not payable in addition thereto. This minimum charge is known as dead rent. It is sometimes arranged that dead rent paid may be redeemed out of subsequent royalties, or, in other words, the company does not pay more than the minimum charge until such time as it has recouped itself out of royalties for the amount of dead rent paid during those years in which dead rent exceeds the royalty on the coal extracted.

Where the company has this right of redeeming dead rents the accounts must be kept in such a way as to show the true position. Any payment made in excess of the actual royalty will be debited to Redeemable Dead Rents account, and, if there is any possibility of the colliery ever being a success, this account will, until it is written off out of royalties, appear in the books as an asset. The royalty on the coal extracted will be debited to Royalty account, which will be transferred to the debit of the Working account at the end of each financial period. In each case the corresponding credit will be made in the landlord's account and from the above explanation it will be seen that, whilst there is any debit balance in Redeemable Dead Rents account, no royalties in excess of the minimum rent will be credited to the landlord's account.

The following example should make these entries clear:—

EXAMPLE.—A Colliery company secured a lease of a property for the purpose of coal mining, the arrangement being that the colliery was to pay to the landlord a royalty of 6d. per ton on each ton of coal extracted from the mine. A dead rent of £100 per annum was provided for, any such rent paid to be redeemable out of subsequent royalties. During 1913 and 1914, when the company was principally engaged in sinking shafts and performing general development work, the output was 1000 tons and 2000 tons respectively. The output in 1915 was 5000 tons, and in 1916 10,000 tons. Show the following accounts in the books of the company for the four years in question:—Royalty account, Redeemable Dead Rents account, Landlord's account.

ROYALTY ACCOUNT.

1913.			1913.		
Dec. 31	To Landlord's A/c. (6d. per ton on 1000 tons extracted)	£25	Dec. 31	By Working A/c ..	£25
1914.			1914.		
Dec. 31	To Landlord's A/c ..	50	Dec. 31	By Working A/c ..	50
1915.			1915.		
Dec. 31	To Landlord's A/c ..	100	Dec. 31	By Working A/c ..	125
	„ Redeemable Dead Rents A/c.. ..	25			
		£125			£125
1916.			1916.		
Dec. 31	To Landlord's A/c ..	150	Dec. 31	By Working A/c ..	£250
	„ Redeemable Dead Rents A/c.. ..	100			
		£250			£250

REDEEMABLE DEAD RENTS ACCOUNT.

1913.			1913.		
Dec. 31	To Landlord's A/c ..	£75	Dec. 31	By Balance	£75
1913.			1914.		
Dec. 31	To Balance	75	Dec. 31	By Balance	125
1914.					
Dec. 31	To Landlord's A/c ..	50			
		£125			£125
1914.			1915.		
Dec. 31	To Balance	125	Dec. 31	By Royalty A/c	£25
				„ Balance	100
		£125			£125
1915			1916.		
Dec. 31	To Balance . ..	100	Dec. 31	By Royalty A/c	100

LANDLORD'S ACCOUNT.

1913.			1913.		
Dec. 31	To Cash	£100	Dec. 31	By Redeemable Dead Rents A/c.	£75
				„ Royalty A/c. ..	25
		£100			£100
1914.			1914.		
Dec. 31	To Cash	£100	Dec. 31	By Redeemable Dead Rents A/c	£50
				„ Royalty A/c ..	50
		£100			£100
1915.			1915.		
Dec. 31	To Cash	£100	Dec. 31	By Royalty A/c ..	£100
1916.			1916.		
Dec. 31	To Cash	£150	Dec. 31	By Royalty A/c ..	£150

FIXTURES ERECTED ON LEASEHOLD PREMISES.—The question as to the provision to be made for the depreciation of wasting assets erected on leasehold premises is one which frequently comes up for consideration. In the absence of any agreement to the contrary any fixtures, which at law would be deemed portion of the premises, erected by the lessee cannot be removed by him at the expiration of the lease and, where this is the case, it is clear that the term of the lease as well as the life of such assets must be taken into consideration in determining the rate of depreciation to be written off. If the working life of the assets is estimated as being less than the term of the lease, then depreciation will be provided for upon the usual lines, but if the lease will expire before such assets would in the ordinary course of events lose their usefulness, the rate of depreciation must be governed by the term of the lease, and such assets must be written out of the books by the time the property is handed over to the lessee.

If, however, the agreement provides that the lessee is to be compensated for any improvements, e.g., buildings erected by him or fixed machinery left on the premises, any such assets will be written down to the amount which the lessee might reasonably expect to receive as compensation therefor.

The agreement may provide that the lessee is to have the right to remove, at the expiration of the lease, all machinery, boilers, etc., erected by him on the premises and, where such is the case, he should write down such assets to their break-up values by the time the lease expires.

CONTINGENT LIABILITIES.—A contingent liability is an amount which will only become payable on the happening of a certain event which is not likely to occur. It is usual to state such an item as a footnote to the Balance Sheet or insert the amount short on the Liabilities side.

The most common example of this class of liability is that arising in connection with bills which have been discounted. Where a concern discounts its bills receivable with a bank or other financial institution it still remains liable to repay the money to such institution in the event of the bills being dishonored by the makers or acceptors at due dates, and such possible liability should be indicated in the published statements under a heading such as "Contingent Liability on Bills Discounted £....." In a bank's Balance Sheet the item "Contingent Liability on Letters of Credit" is frequently seen, either as a footnote or included with the actual liabilities, but, in the latter case, the corresponding liability of the customers on whom bills will be drawn under such letters of credit will be included among the assets.

Where there is any probability that an amount which is usually stated as a contingent liability will be an actual liability, provision should be made out of profits by way of a special reserve to cover the estimated loss. The exact stage at which a **possible** liability becomes a **probable** one is often difficult to determine, but it is always better to err on the safe side.

SHARES HELD AS ASSETS.—Where one company holds as part of its assets the shares of another company the question often arises as to the valuation at which such shares should be shown in the books and Balance Sheet of the first named.

It may be stated as a general rule that any such shares should not be included at more than cost price, and this is so even if the nominal value of such shares is considerably higher than cost. Suppose, for example, that the "A" Co. sold a portion of its property to the "B" Co. The value at which such property stood in the books of the "A" Co. was £10,000, but the "B" Co. issued to the "A" Co., as payment for the property, 15,000 fully-paid shares of £1 each. These shares should not be included in the "A" Co.'s books at more than cost, i.e., the value at which the asset disposed of appeared in its books, £10,000. If, later, the "A" Co. sells such shares at more than this amount, it will then be entitled to treat the difference as profit, but it is clearly wrong to take credit for any profit until it is realised.

Where, however, shares received as consideration decrease in value, i.e., become worth less than cost, the question arises as to whether such shares should be written down in the books. Taking first of all the legal aspect of the case, it was decided in Verner v. The General, &c., Trust, Ltd. (1894, 2 Ch. 266), that where shares are held as fixed assets, as would be the case in an Investment Company, a company is under no obligation to provide for the decrease in value of such shares before treating as profits the excess of current income over current expenditure, provided, of course, there is nothing to the contrary in the company's articles of association. But if the shares are part of the floating assets of a company, as they would be if they were acquired purely for speculative purposes, any decrease in the value of such shares must be taken into account before arriving at the profits.

Where a company holds shares as an investment it is advisable to set up an Investment Fluctuation Reserve, so that, if it is desired to allow any such shares to remain in the books at cost price, provision may be made in the reserve to equalise any over-statement of the actual value of the shares in the Balance Sheet. If, on the other hand, the shares are quoted at more than cost, it is, as already mentioned, incorrect to write up the value to the credit of Profit and Loss account. If the directors wish to show the shares in the Balance Sheet at market valuation any increase in the value should be carried to a special reserve.

Where shares are held for speculative purposes the rule is that the shares must be valued at cost price or market price, whichever is the lower, i.e., treated on exactly the same footing as stock-in-trade in an ordinary trading concern.

If the shares held are not fully paid up the amount uncalled thereon should be stated as a memo. beneath the asset in the Balance Sheet.

FOREIGN BRANCHES.—In Australia it is not often that the necessity arises for keeping books so as to record in another currency the transactions of foreign branches. Where such branches are conducted they are frequently required to supply to the head office periodical statements showing their transactions and the bulk of the bookkeeping is, therefore, performed at the head office. These statements will, of course, be given in the foreign currency and, as it would entail a considerable amount of work to convert the individual items into English currency, it is better to keep a separate set of books for the branch and write them up from the statements received in the foreign currency. At

the end of each financial period a Trial Balance will be prepared and the items in the Trial Balance should then be converted into English currency according to the following rules:—

(a) Remittances will be converted at the rate ruling at the date of remittance.

(b) Revenue items will be converted at the average rate throughout the period.

(c) Fixed assets will be converted at the original rate, i.e., at the rate ruling at the time when the assets were acquired.

(d) Floating assets will be converted at the current rate, i.e., the rate ruling on balance day.

(e) Liabilities.—As liabilities at a branch are most likely to be in connection with local purchases and expenses, these will be treated on the same footing as floating assets and converted at the actual rate on balance day.

When the items in the Trial Balance have been converted on the lines above mentioned, it is very unlikely that the two sides will agree. The difference between the "Dr." and "Cr." columns will be due to variations in the exchange rates, and the two sides will be agreed by inserting the difference on the smaller side and treating it either as a profit or loss on exchange, according to circumstances.

VALUATION OF STOCK.—The general rule as to the basis upon which the valuation of stock-in-trade is to be made is that it should be valued at cost price or market price, whichever is the lower at date of balancing.

The valuation of completed and uncompleted stock in a manufacturing concern which has a satisfactory system of costing is a matter of no particular difficulty, but some trouble is usually experienced in getting a satisfactory valuation of stock in those concerns where Cost accounts are not kept or which have no systematic method of costing. The difficulty is accentuated where the articles manufactured are varied and large numbers of unfinished articles at all stages of manufacture are on hand at stocktaking.

Where such a concern has regular selling prices for the completed articles probably the most satisfactory way of arriving at the cost of those uncompleted is to include them in

the Stock sheets at selling prices, less the estimated cost of completing, and less also the average percentage of gross profit shown by recent Trading accounts, after making due allowance for any increase in wages, prices and other elements which would affect the result. In many cases this method will prove more accurate than estimating the cost of materials, labor, and other expenses already incurred in connection with such goods, but the fact that such concerns can be placed in the position of being required to base the valuation of a part of their stock on estimates of this nature emphasises the necessity for an effective system of costing.

Although the method above described may be permissible in certain classes of manufacturing concerns, the same circumstances do not arise in retail establishments and the custom, which appears to be gaining hold in some such businesses, of valuing stock at selling prices, less an estimated percentage of gross profit cannot be too strongly deprecated. The fact that in such concerns a varied stock is often carried, that different classes of stock yield different percentages of profit resulting in the likelihood of the percentage or gross profit on sales varying from year to year, that where a very large stock is carried a small discrepancy in the estimated percentage may result in an over-statement or under-statement of profits by some thousands of pounds, added to the ordinary liability of error in stock-taking and pricing, renders this an extremely dangerous principle of valuation and one which every Auditor should, save under exceptional circumstances, hold out against most strongly.

FIRE LOSSES—"AVERAGE CLAUSE."—An Insurance policy is a contract of indemnity, and any person who takes out such a policy cannot claim thereunder anything in excess of the actual loss sustained by him, irrespective of the amount of the policy. Where such a policy contains the "average clause," and this clause is inserted in practically every fire policy, the policy-holder is not always entitled, even if the loss sustained is less than the amount of the policy, to recover the total of his loss.

To ascertain the amount which the policy-holder is entitled to claim under such circumstances, the amount must be "averaged" in proportion to:—

(a) The actual value of the property insured.

(b) The amount of the policy.

(c) The value of the property actually destroyed.

If the property covered by the policy is fully insured, then the policy holder can claim for any loss by fire, whether total or partial, sustained by him.

On the other hand, if the property is not fully insured and there is a total destruction by fire, the policy holder can claim the full amount of the policy. But if there is a partial loss the insurance company can only be required to pay a proportion of the loss, ascertained in accordance with the rule above given.

EXAMPLE.—"A" has on his business premises stock-in-trade valued at £1000, and has taken out a fire insurance policy for that amount. A fire occurs, and goods to the value of £800 are destroyed. He is entitled to receive the full amount of his loss from the insurance company.

EXAMPLE.—"A" has stock-in-trade valued at £1000. He insures these goods for £800, and all his stock was subsequently destroyed by fire. He is entitled to receive from the insurance company the full amount of his policy, £800.

EXAMPLE.—"A" has stock-in-trade valued at £1000, which he insures for £800. A fire occurs, and goods to the value of £400 are destroyed.

In this case the "average clause" applies. "A" cannot say that the whole of the goods destroyed formed part of the particular £800 worth which he insured with the company. The correct way to look at the matter is that, as the stock was worth £1000, and he was only insured for £800, the insurance company took eight-tenths of the risk and "A" took two-tenths himself. The loss must, therefore, be borne in those proportions, and "A" will only be entitled to recover £320 from the company.

CHAPTER XXXIII.

THE CRITICISM OF ACCOUNTS.

The criticism of published accounts is perhaps the best possible mental exercise for the student of Accountancy, requiring as it does a thorough knowledge of the principles of correct accounting, a full acquaintance with business terminology and a good grasp of commerce and financial customs. All these branches of knowledge must be acquired in some degree before criticism can be effective and instructive; the keenest financier can offer no opinion as to the soundness of a business and its policy as revealed by its published accounts unless he has some knowledge of accounts at his disposal, whilst a mere knowledge of accounts, representing the finished product of the bookkeeper, will not go far in the direction of supplying matter for criticism from the standpoint of the business man and investor.

The subject of this chapter might therefore be defined as:—The application to published accounts of tests suggested by a knowledge of the principles of Accountancy, finance and the recognised methods of stating such accounts for the information of proprietors and investors. The primary objects of such criticism may be briefly stated as follows:—

1. To test the accuracy and reliability of accounts.

2. To ascertain their meaning and effect.

3. To discover data for purposes of comparison.

As secondary objects there might be added:

4. (In the case of published criticism.) To encourage care and skill in the compilation of accounts.

5. To perform a most useful exercise in Accountancy, and consequently to deepen and strengthen one's knowledge of accounts.

Keeping in view these objects and the end to be attained it may now be as well to formulate some general "plan of attack"; for criticism is in its very nature more destructive than constructive; more devoted to attack than defence; and no attack can be expected to be successful or to yield much if it is undertaken aimlessly and according to no preconcerted plan.

The following is suggested as a methodical plan along which one's critical faculties might be directed.

1. Matters of form, comprising:—

   (a) Headings.

   (b) General style.

   (c) Lucidity.

   (d) Arithmetical correctness.

2. Matters of principle, looking for—

   (a Failure to distinguish between capital and revenue items.

   (b) Inconsistency between headings and account.

   (c) Errors caused through ignorance; these are too numerous and varied to classify.

3. Interpretation of accounts, seeking—

   (a) The net results revealed by the accounts.

   (b) Material for future guidance.

   (c) Statistical information for comparative purposes.

4. Evidence of stability in the concern as revealed by its accounts.

1. **Matters of Form.**—The plan of attack as formulated above requires that criticism be directed first to matters of form in published accounts. It is admitted at the outset that this portion of the subject may be described as being of minor importance, but still it is important and there are good reasons to be urged in support of the claim that all accounts should conform to orthodox requirements in matters of form.

The headings of published accounts should first be scanned, for, if they have any use at all, they should contain information as to the nature of the statements which they precede. In this connection it should be noted that a Profit and Loss account, using the term generally to cover all branches of Revenue accounts, should be headed as relating to a given period, thus "Profit and Loss account for the year ended 31st December," but a Balance Sheet, which does not cover a given period of time but merely sets out the position at a given point of time, should be headed "Balance Sheet as at 31st December."

As mentioned in Chapter I., the headings "Dr." and "Cr." and the prefixes "To" and "By" are entirely out of place in a Balance Sheet, seeing that a Balance Sheet is not an account, but merely a statement or list of balances extracted from the ledger.

Correct terminology in headings is also a matter of some importance. There is a generic term "Revenue account" which covers all accounts of any description designed to show the operations of an undertaking for a given period. In a trading or manufacturing concern the sub-headings "Trading account" and "Profit and Loss account" are used; in a non-trading concern such as, for example, a club or a church, the term "Income and Expenditure account" is used. These are all species of Revenue accounts, but it is advisable, except in those cases where the term "Revenue account" is required by statutory forms, to adhere to the terms "Profit and Loss account" for a trading concern, and "Income and Expenditure account" for a non-trading concern. As opposed to these there is a "Receipts and Payments account," a heading which should be used only for a summary of cash receipts and payments for a given period.

The Profit and Loss account of a trading concern is generally subdivided into Trading account, Profit and Loss account and, except in the case of a sole trader, Appropriation account, the third division being designed to show how the net profit for the period, together with any balances of undivided profits brought forward, are appropriated.

In considering the question of form the critic should note in those cases where statutory forms are enjoined whether the accounts comply with the statute. An example of this is provided in the case of the accounts of Life Insurance Societies which are required to follow certain statutory forms, set out as schedules to an Act of Parliament. An illustration of such accounts is supplied in conjunction with the chapter on Insurance Companies accounts.

The Double Account system, which is applicable to certain forms of trading, is also in its origin a statutory form of presenting accounts and the recognised form should be followed, the Balance Sheet being set out in two parts, the first being headed "Capital Receipts and Capital Expenditure," and the second part, "General Balance Sheet."

Still dealing with the subject under "Matters of Form," the next point for consideration is the general style of accounts submitted for criticism. There should be an orderly classification of the component parts of the accounts and a grouping together of all cognate items. Where in a Profit and Loss account, for instance, various nominal accounts, representing expenditure, can be grouped under such headings as Factory Expenses, Office Expenses, Expenses of Distribution, General Administration Expenses, &c., it is advisable to adopt such a method. Another column should be used in the Profit and Loss account for this purpose and the various amounts under any of these headings should be stated in the inner column, the total being carried to the outer column. A little care in this direction will make the statement more useful.

Again, correct nomenclature of the various items should receive more attention than is sometimes apparent. In particular, any items temporarily capitalised, as, for example, Preliminary Expenses, or a special Fire Loss, or other extraordinary expenses carried forward should be so stated in the Balance Sheet as to make perfectly clear the exact nature of the item. Any heading that on the one hand seems to indicate that the amount represents a tangible asset, or that, on the other hand, is so vague as to be meaningless and looks as if it were intended to be taken impliedly as an asset, should be avoided. The use of the item "Suspense account" is nothing more than the hall mark of the careless or inefficient accountant. If a Suspense account is at any time necessary the heading used should indicate the nature of the item giving rise to such, as "Error Suspense account" or "Anonymous Remittance Suspense account."

Again, where a reserve is raised for a particular purpose, that purpose should be clearly indicated in the title of the account. The bare term "Reserve account" should be used only for a general reserve created to meet contingencies or to increase working resources, but if, for example, a reserve is created to make provision for doubtful debts it should be styled "Doubtful Debts Reserve account" and so on. The accountant should not fear to display a little originality occasionally in creating a new name to meet peculiar circumstances; the only requirements with which he must conform

in such matters are that the title must be as brief as possible and that it should fairly describe the item to which it refers.

The quesion of the arithmetical and general correctness of the figures may also be dealt with under the present heading. This is perhaps sufficiently dealt with by the injunction "take nothing for granted." Always check additions and calculations and see that they are correct. Sometimes an important omission from the accounts may be disclosed in this way and a little study of the other portion of the accounts will show what the omission is.

2. **Correctness in Principle.**—This is a far more important field for criticism than that which has already been dealt with. Under this heading there might be placed, first, an error which could perhaps more correctly come under the heading of "Matters of Form." This error consists of an inconsistency between the heading of the account and the account itself; thus one occasionally sees a statement of cash receipts and payments styled "Balance Sheet or Profit and Loss account" and this error in the heading has occasionally led to attempts to mix a Cash account and a Revenue account, two statements which in their essential natures are as non-miscible as oil and water.

A more common inconsistency between heading and account, which results in an error of principle, is that of styling a Profit and Loss account "Profit and Loss account for the year ending the 31st December" and including in it items which do not belong to that period, for example, a balance of undisturbed profit brought forward from previous years on the one side, and dividends and other appropriations of profits on the other side. If an account is headed "Profit and Loss account for the year ended 31st December" the balance of that account should be the net profit earned during that period without reference to any figures carried forward from another financial period.

As an illustration of the unsatisfactory result of this error from a shareholder's point of view, the published Revenue account of an Opera House company is submitted in a summarised form.

THE OPERA HOUSE COMPANY.

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31st AUGUST, 1920.

	£	s.	d.		£	s.	d.
To Dividend at 8 p.c.	£1,438	6	7	By Balance Income and Expenditure A/c. last year ..	£1,463	12	7
„ Interest	115	16	3	„ Rents	3,310	9	8
„ Insurance, etc., etc.	1,336	18	2				
„ Balance of Profit and Loss A/c ..	1,883	1	3				
	£4,774	2	3		£4,774	2	3

In the first place as this is the account of a non-trading concern it should have been headed "Income and Expenditure account" as, judging by the first item on the credit side of the statement, it was styled in the previous year. In the second place, the balance does not show the result of the year's working. The true net profit for the year is £1857 15s. 3d. This is not shown on the face of the account as it should have been; any shareholder who wishes to find the result of the working of the company is required to make a calculation, adding to the balance shown in the account the amount of dividend distributed and deducting the balance brought forward from the previous year. As accounts are presumably published to give information to shareholders this result should be set out clearly.

A more serious error of principle is displayed where there has been a failure to distinguish properly between capital and revenue receipts and capital and revenue expenditure. Of course such errors are not always revealed in the published accounts, but whilst this is the case they should be apparent to the auditor or other person responsible for checking the accounts during course of construction.

Sometimes it is clearly shown, as was the case in the Profit and Loss account of a trading concern recently published, in which appeared on the credit side the item "Proceeds of Sale of Land." It is not often, however, that such sublime ignorance of the first principles of accountancy is revealed in published accounts. A more common, but perhaps just as serious error, is that of failing to make any distinction between those items which are charges against a year's profit and those which are merely appropriations of net profit when ascertained.

The following statement was not long ago published above the signature of the auditors in the prospectus of a company which was desirous of placing a new issue of shares with the general public:—

"The business showed a net profit of £8000 for the half-year and this must be considered a highly satisfactory result. This net profit of £8000 the directors propose to apply as follows:—

Depreciation on Buildings and Plant	£1000
Dividend of 8 per cent. on Capital	4000
Reserve	2000
Carried forward	1000
	£8000"

This is quite wrong in principle. The amount of depreciation properly attributable to the year's working is as much a charge against the profit of the year as are the wages of the workmen. The directors might with equal justification have so framed this statement as to show a net profit of £13,000, and, with the usual self-congratulatory reference, propose to apply it towards writing off wages £5000 and then in accordance with the foregoing. It may be safely assumed that even the average shareholder would imagine there was something wrong with a statement which showed £13,000 profit arrived at in such a way, and a Professional Accountant should not require to be told that it is equally wrong in principle to treat depreciation in this manner.

It may be argued that it is a small matter and that the result is the same, but this cannot be conceded. The treatment of depreciation complained of tends to keep alive the hoary-headed error that a charge for depreciation is a mere prudential provision to be made out of profits if sufficient profits are earned.

Under this heading must also be included the necessity of watching for any error which may be due to ignorance of the principles of Accountancy, and it is obvious that such errors are too numerous and too varied to be sub-divided. Anyone in a position where he is likely to receive numbers of published Balance Sheets with the accompanying accounts will have ample opportunity of ascertaining that many contain absurd errors. In the Profit and Loss account of at least two business concerns seen recently the cash balance at the end of the year was included as a debit entry in Profit and Loss account whilst mistakes of an equally absurd nature have been made in other published accounts.

Where an obvious error of principle, as instanced above, is shown on the face of the accounts the critic should ask himself, what is the result of this error? Clearly the consequence of debiting the cash balance to Profit and Loss account is that the profits will be understated, and, as a natural result, this should prevent the agreement of the two sides of the Balance Sheet, the cash balance having appeared once in Profit and Loss account and once as an asset. This should cause the assets side of the Balance Sheet to appear greater than the liabilities side.

The next step is to ascertain if this result is apparent in the accounts and, if not, how it has been covered up. For instance, in the accounts which contained the error above referred to, a Balance Sheet was shown with both sides in agreement, a thing which the principles of Accountancy and the

rules of arithmetic indicate is impossible unless a compensating error is made to adjust matters. A further search may reveal where this compensating error has been made.

In the published statements of a trading concern which appeared recently, the following account called "Stock and Trading account" was set out:—

STOCK AND TRADING ACCOUNT FOR HALF-YEAR ENDED 31st AUGUST.

To Goods Purchased	£13,091	16	7	By Goods Sold	£14,783	2	4
" Goods in Stock March 1st	4,688	5	5	" Goods in Stock ..	4,970	9	3
" Goods Ledger, A/cs receivable	4,036	13	7	" Goods Ledger, A/cs receivable	5,078	10	9
	£21,816	15	7	" Discount and Interest	179	3	8
" Sundry Expenses..	2,761	9	0				
" Balance being profit	433	1	5				
	£25,011	6	0		£25,011	6	0

It will be seen that the above is really a Trading account, but it is debited with Book Debts, presumably at the beginning of the period, and credited with Book Debts, presumably at the end of the period. As the Book Debts are assets they have no more legitimate a place in a Trading account than has cash in a Profit and Loss account and, if the Book Debts at the beginning and end of a period are wrongly inserted in Trading account, the result must be to throw the balance of that account out by the amount of the increase or decrease in Book Debts during the period.

In the present case the Book Debts have increased by £1041/17/2. This error must affect the profits, so that, instead of the account showing a net profit of £433, it appears as if there should have been a loss of £608. The Balance Sheet which accompanied this account had, however, its two sides in agreement, with the Book Debts, £5078/10/9, amongst the assets and the net profit £433/1/5 on the liabilities side. The published accounts showed clearly that the books had been kept by double entry and except for the error above stated the accounts were in exceptionally good form. Some explanation had to be looked for other than that a mistake had been made in the Trading account and subsequently covered up by "cooking" the Balance Sheet.

The apparent explanation of the mystery was that the amount appearing in the Trading account as sales represented,

not true sales, but the actual cash receipts during the year in respect of goods sold, this total including cash sales and all amounts received in reduction of Sales Ledger accounts. The correct statement of the position would therefore be as shown in the following Trading account:—

TRADING ACCOUNT FOR HALF-YEAR.

	£	s.	d.		£	s.	d.
To Stock at 28/2/17 ..	£4,688	5	5	By Cash Receipts A/c Goods sold.	£14,783	2	4
„ Purchases	13,091	16	7	„ Less Sundry Debtors (goods) Feb. 28th	4,036	13	7
„ Duty	432	12	11		£10,746	8	9
„ Gross Profit	2,582	13	10	„ Add do. Aug. 31st	5,078	10	9
				„ Sales for half-year	15,824	19	6
				„ Stock at close ..	4,970	9	3
	£20,795	8	9		£20,795	8	9

A note was subsequently received from the bookkeeper responsible for the form of accounts stating that the above account showed the position correctly.

On another occasion the Profit and Loss account of a trading concern showed on the debit side, Book Debts last year £3800, and on the credit side Book Debts this year £4200. Ordinarily this error must have resulted in an overstatement of profits by £400, the amount by which the Book Debts had increased, and of course it should have thrown the Balance Sheet out by the same amount, the liabilities exceeding the assets. The two sides of the accompanying Balance Sheet were, however, shown in agreement, but an inspection showed the item, "Suspense account, £400," nestling in an unassuming manner among the assets.

The presence of this Suspense account indicated clearly that the placing of Book Debts in Profit and Loss account was, in this case, a pure error and that, being unable to account for the discrepancy in the Balance Sheet, the bookkeeper had recourse to the term "Suspense account" to produce an apparent agreement between the two sides of that statement.

3. **Interpretation of Accounts.**—If accounts are carefully framed with the intention of disclosing information to shareholders and investors, nothing more should be necessary in seeking to interpret them than a good knowledge of business terms and an ordinary working knowledge of accounts. A

study of many published accounts, however, gives one the impression that they are framed, not so much to give information, as to endeavour to conceal it and, instead of the result of the transactions being clear from the Profit and Loss account and the exact position of the undertaking being plainly set out in the Balance Sheet, it is often necessary that the critic should "dig" for his information and obtain by inductive and deductive reasoning what should be apparent as a direct statement. Ambiguous items often appear and their exact nature has to be determined by tests based on their relationship to other items.

As an illustration of the class of accounts referred to and as an example of the methods required to obtain information from accounts in such cases, there are supplied hereunder the published accounts of a Permanent Investment and Building Society :—

STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31st AUGUST, 1916.

REVENUE ACCOUNT.

RECEIPTS.

To	Balance, 31st August, 1915		£964 16 6
„	Investing Members' Payments	£1,556 13 6	
„	Borrowing Members' Payments	5,490 16 1	
„	Advances Repaid	5,091 19 7	
„	Deposits	13,862 5 5	
„	"C" Shares and Premium	1,386 0 0	
„	Rent	44 2 0	
„	Land sold	250 0 0	
			27,681 16 7
„	Balance, 31st August, 1916		1,340 13 3
			£29,987 6 4

EXPENDITURE.

By	Advances		£12,946 3 0
„	Shares Withdrawn		2,219 10 7
„	Deposits Withdrawn		13,311 8 5
„	Interest on Deposits		196 18 3
„	Interest on Bank O/D.		7 5 6
„	Rents, Rates, and Insurances, etc.		124 16 5
„	Dividend "C" Shares		660 18 1
„	Stationery and Advertising		43 18 7
	EXPENSES OF MANAGEMENT—		
„	Manager's Salary	£250 0 0	
„	Directors' Fees	75 12 0	
„	Agents' Commission	99 1 10	
„	Post., Tel., etc.	5 19 4	
„	Rates, Inscs., Repairs	21 0 5	
„	Miscellaneous	24 13 11	
			476 7 6
			£29,987 6 4

BALANCE SHEET.

LIABILITIES.			ASSETS.	
To "A" and "B" Shares	£11,629 14 4		By Loans	£44,944 11 11
" "C" Shares	10,000 0 0		" Freehold Premises	870 2 0
" Profit "C" Shares, less Int'm Divd.	519 12 6		" Office Furniture and Stationery	75 0 0
		22,149 6 10		
" Reserve Fund		1,477 5 0		
" Deposits		20,826 11 5		
" Inscs. Premiums due		75 6 8		
" Audit Fees		16 16 0		
" Bank of New Zealand		1,344 8 0		
		£45,889 13 11		£45,889 13 11

PROFIT AND LOSS ACCOUNT.

To Expenses of Management	£475 6 6		By Interest	£2,807 2 9
" Auditors' Fees	16 16 0		" Fines	65 13 3
" Printing, Advertising, and Stat.	53 18 7		" Fees	46 5 0
" Depn. Office Furniture	5 0 0		" Rent	36 18 0
		551 1 1		
" Int. on Deposits	754 13 9			
" Int. on Bank Overdraft	11 0 3			
		765 14 0		
" Balance Net Profit, appropriated as under:—				
To "A" and "B" Shares	832 9 5			
" "C" Shares	806 14 6			
		1,639 3 11		
		£2,955 19 0		£2,955 19 0

The statutory requirements relating to building societies or the rules of such institutions usually stipulate that there shall be published statements showing—

(a) All the receipts and expenditure since the preceding statement, and

(b) A general statement of the funds and effects showing the amount due to various holders of different classes of shares and to depositors and creditors for loans, and also the balance due or outstanding on mortgage securities (not including prospective interest).

The account given above, and headed "Revenue account," is in compliance with Clause (a), but for some inscrutable reason it has been dubbed a Revenue account. What place have such items as "Bank Balance," "Land Sold," "Advances Repaid," "Advances Made," &c., in a Revenue account? The account is a Receipts and Payments account, or a summarised Cash account, and the term "Revenue account" might very fittingly have been applied to that which is styled "Profit and Loss account," as being more applicable in the case of a non-trading concern. It will be noted that the bank balance as shown by the summarised Cash account, £1340/13/3, does not agree with the balance of the Bank account, as shown in the Balance Sheet, £1344/8/, the difference being £3/14/9. This is accounted for by the fact that in entering the amount due to the bank in the Balance Sheet the amount of interest accrued up to balance day has been added, whilst, of course, it could not be entered in the Cash Book until actually credited to the bank in response to the bank's entry.

That this is the explanation of the discrepancy can be demonstrated by comparing the item "Interest on Bank Overdraft" debited in the Profit and Loss account with the "Interest on Overdraft" shown in the summarised Cash account as having been actually paid. Rent received according to the Cash Book is £44/2/, whilst a sum of only £36/18/ is credited to the Profit and Loss account. In all probability the difference represents rent received in respect of the previous year, which was included in the Revenue account of that period. The amount spent on Stationery and Advertising according to the Cash statement is £43/18/7, whilst in the Profit and Loss account it will be found that the item figures as £53/18/7. No doubt the extra £10 is a reduction in the amount of stationery now on hand as compared with the previous Balance Sheet. The discrepancy might be very puzzling to members.

On the expenditure side of the Cash statement there is an item "Rents, Rates, Insurance, &c." This appears baffling at first sight, for it is not debited to the Profit and Loss account, whilst included in the management expenses may be seen the item "Rates and Insurance." Does the first mentioned item represent the rates and insurance paid on the property in the hands of the Society, or paid on behalf of members in respect of their property and debited to their advance accounts? This may be so, although why rent should figure in this connection is not clear.

To apply a test. The Directors' report states that the loans last year were £39,653/5/5. With this as a starting point an account called "Sundry Loans account" may be set up, to which may be posted all items affecting loans, on the understanding that the item "Rents, Rates, and Insurances" is paid on behalf of borrowers, and therefore to be debited to Sundry Loans account. The present balance of Loans as shown by the Balance Sheet, £44,944/11/11, is inserted on the credit side, and adding the two sides it will be found that there is a discrepancy of £4.

SUNDRY LOANS ACCOUNT.

	£	s.	d.		£	s.	d.
To Balance, 1915 ..	£39,653	5	5	By Advances Repaid	£5,091	19	7
„ Cash Advanced this year	12,946	3	0	„ Borrowing Members repayments..	5,490	16	1
„ Interest	2,807	2	9	„ Balance, 1916	44,944	11	11
„ Rents, Rates, and Insurances, paid o/a members	124	16	5				
	£55,531	7	7		£55,527	7	7

This is near enough to demonstrate that the surmise that the rent, rates, and insurances were paid on behalf of borrowing members is a correct one.

Now to explain the discrepancy of £4. Turning to the Balance Sheet, there will be seen on the liabilities side the item "Insurance Premiums due," £75/6/8. Apparently the Society debits the borrowing member when a premium is due, and credits the agent for the Insurance Co., so it may be expected that this £75/6/8 has been debited to Sundry Loans, and as a debit of only £120/16/5 is required in Sundry Loans account for rates and insurance, it is clear that of the £104 16/5 shown by the Cash statement as having been paid away, £79/6/8 was paid in respect of Premiums due at last Balance day, and £45/9/9 in respect of Premiums due this year. If, then, the Sundry Loans account is amended as explained above by debiting it with :—

Rates and Insurance paid in cash	£45 9 9
Rates and Insurance due	75 6 8
	£120 16 5

three results are achieved. Firstly, it has been demonstrated that the rent, rates, and insurances were paid on behalf of borrowing members. Secondly, the Sundry Loans account has been balanced, and, thirdly, an item has been accounted for in the Balance Sheet which otherwise might have defied criticism.

The chief comment to be made in connection with the Balance Sheet is that this statement might have supplied considerably more information. The "A" and "B" shares are evidently ordinary Building Society investing shares, whilst according to the directors' report the "C" shares represent permanent capital. The "A" and "B" shares should have been set out so as to show the following information—

Amount paid to date of last Balance Sheet	£11,572 0 3
Payments this year (less fines and fees)	1,444 15 3
Net profits added this year	832 9 5
	£13,849 4 11
Shares withdrawn	2,219 10 7
	£11,629 14 4

The total of these items thus gives the amount at present stated opposite "A" and "B" shares. The Directors' report supplies the information that during the year 129 "C" shares have been issued at a premium of £1 per share, and it would have been an improvement if the accounts showed clearly what has been done with this premium. In all probability it has been credited to the Reserve account.

The Profit Appropriation account in respect of the "C" shares should also be set out so as to show the movements since the last Balance Sheet, thus:—

Amount brought forward from last year	£373 16 1
Profit this year	806 14 6
	£1,180 10 7
Less Interim Dividend	660 18 1
Amount now available	£519 12 6

The item "Deposits" in the Balance Sheet includes accrued interest to date, amounting to £557/15/6, and it

would have been an improvement to show this interest separately.

Percentage Calculations.—Under the present heading there might be included the task of obtaining useful information from published accounts by calculating the percentages of the various items of income and expenditure on some agreed basis. This supplies information which is very useful for comparative purposes, but as this matter is dealt with fully in the chapter on "Percentage Statements" it is not proposed to deal further with this portion of the subject here.

4. **Stability of Concern.**—The final office and from some points of view the chief office of the critic is to apply his knowledge and his methods to the discovery of the stability or otherwise of a business, the figures of which are placed before him. This is generally the object of published criticism in financial and business journals. The critic requires a thorough knowledge of business terminology and all likely headings of various classes of expenditure and of assets and liabilities. With regard to the great majority of the items their meaning will be clear and their effect apparent. With regard to others, the methods which have been suggested under the previous heading might be necessary before any opinion could be formed as to their effect upon the stability of the concern.

The critic should search both the accounts themselves and the directors' reports for any evidence available as to the principle or method of valuation adopted. With the accounts of two consecutive years before him he may be able to see at a glance that wasting assets such as Machinery and Plant, and Leasehold Premises are not being written down in the books. Such assets as Goodwill, Leasehold Premises and, in fact, all fixed assets, should never be valued above cost, and any attempt to write these up is to be condemned and is evident witness of a desire to bolster up an unsatisfactory position.

The critic will always view suspiciously a Profit and Loss account which shows a small amount of profit accompanied by a Balance Sheet in which the effort to scrape up the last shilling in the way of assets is apparent. The published accounts of a certain Transport Co. supply annually a good example of this, the Balance Sheet containing a long list of assets which are individually trivial. Under ordinary circumstances this might be due to careful bookkeeping and a desire to get the exact result of the period, but in view of the fact that, when all these are taken into account, the balance of the Profit and Loss account just barely comes on the right side it seems to suggest that the office staff has been engaged in

clearing out pigeon-holes to take stock of "Stationery on hand," whilst the working staff has been on its hands and knees in the storeroom getting together "Horse-feed on hand" for the purpose of bringing yet another asset into the Balance Sheet.

It must be remembered that there is a general tendency amongst directors and others responsible for the published accounts, to avoid showing a loss at any cost. The motto seems to be "Show profits, honestly if you can, but show profits," and the critic of accounts must learn to watch for the signs which indicate that this is being done at the expense of truth.

Naturally, one of the best evidences of stability is the presence of a reserve, showing that assets are available sufficient to pay all liabilities, repay capital, and then provide a surplus for distribution. Where such a reserve is shown and the assets are tangible assets at a safe valuation, the business is obviously a sound one.

CHAPTER XXXIV.

FORM OF PUBLISHED STATEMENTS.

It is proposed to submit herewith the published Balance Sheets of various classes of concerns with the object of showing the most usual method of presenting such Balance Sheets for the guidance of those who may have statements of a similar nature to prepare. Where the writer considers alterations might, with advantage, be made in the form of presenting the statement, these will be noted.

The outstanding feature of practically the whole of the statements published is the paucity of information supplied. It is, of course, admitted that it is not altogether advisable in many cases to supply too much information to outsiders who might have access to these statements, but, on the other hand, it is thought that this caution is frequently carried too far, and that shareholders could quite reasonably ask that more detailed information should be supplied in the statements submitted to them, as they constitute their sole means of tracing the progress of events.

No attempt will be made to criticise the financial standing of the various businesses whose statements are presented, as they are submitted solely for the purpose of showing the form of presentation, and to enable some explanation to be given with regard to such items in these statements as may be peculiar to the respective concerns.

BANK BALANCE SHEET.—The Balance Sheet of the Australian Bank of Commerce, Ltd., has been selected because it supplies more detailed information than is usual with Banking institutions. The headings "Dr." and "Cr." and the prefixes "To" and "By" might with advantage have been omitted in the Balance Sheet.

Dealing first of all with the

Liabilities Side.—It will be noted that the Capital accounts are set out on the Australasian method as described in Chapter X., and the statement thus shows clearly the full Nominal Capital of the company, the number and value of the shares unissued, the proportion subscribed for, the amount of the Subscribed Capital still unpaid and the Paid up Capital.

BALANCE SHEET

OF

THE AUSTRALIAN BANK OF COMMERCE LIMITED.

(INCLUDING LONDON OFFICE—BY CABLE).

31st December, 1911

Dr. | Cr.

LIABILITIES.

	£	s.	d.	£	s.	d.
To Capital—						
Authorised, 2,000,000 Shares of £1 each	2,000,000	0	0			
Less Unissued 801,656 „ @ £1 per share	801,656	0	0			
Subscribed	1,198,344	0	0			
Less Amount payable by instalments	5,296	2	7			
Capital paid up	1,193,047	17	5			
„ Inscribed Deposits	1,730,197	19	9	2,923,245	17	2
„ Current Deposits, Contingency Accounts, and Interest held in Reserve	1,852,790	16	6			
„ Fixed Deposits (Ordinary)	629,599	10	8			
„ Accrued Interest on all Deposits and Rebate on Current Bills	42,273	2	10			
„ Notes in Circulation	13,196	10	0			
„ Bills in Circulation	156,826	7	1			
„ Balances Due to other Banks	48,473	13	8	2,743,160	0	9
This sum of £2,743,160 0s 9d to be a first charge on the whole of the Bank's assets						
„ Profit and Loss Account				16,222	9	5
				5,682,628	7	4
Contingent Liabilities—Outstanding Letters of Credit as per contra				90,649	6	6
			£	5,773,277	13	10

ASSETS.

	£	s.	d.	£	s.	d.
By Coin and Bullion	579,134	17	9			
„ Bullion in transit to London	4,661	13	9			
Cash at London Bankers and at short call in London	45,779	18	6			
„ Government Securities including British Consols	78,500	0	0			
„ Australian Notes	246,386	0	0			
„ Queensland Government Treasury Notes	138	0	0			
„ Notes of other Banks	2,184	0	0			
Balances Due by other Banks	110,171	13	2			
„ Bills Receivable in London and Remittances in transit	136,666	16	6	1,203,022	19	8
„ Bills Discounted, Loans, Advances and all other Debts Due to the Bank				4,109,222	17	7
„ Bank Premises				369,782	10	1
				5,682,628	7	4
Liabilities of Customers on Letters of Credit, as per contra				90,649	6	6
			£	5,773,277	13	10

PROFIT AND LOSS.

Dr. | Cr.

	£	s.	d.		£	s.	d.
To Interest on Inscribed Deposits	34,603	19	2	By Amount undivided from last half-year	3,953	18	0
„ To Balance Carried Down	16,222	9	5	„ Profits for the half-year ended 31st December, 1911	46,872	10	7
£	50,826	8	7	£	50,826	8	7
Dividend at the rate of 2½ per cent per annum	14,850	0	0	„ By Balance brought down	16,222	9	5
„ Balance to carry forward	1,372	9	5				
£	16,222	9	5	£	16,222	9	5

W. P. MANNING, *Chairman*
A. P. STEWART, *General Manager*

WILLIAM CRAIG, F.C.P.A.,
G. MASON ALLARD, F.C.P.A., } *Auditors*

AUDITORS' REPORT.

WE have examined the annexed Balance Sheet, made up to 31st December, 1911, and report that we find the several items therein stated to conform to the Balances in the General Ledger, and the Balance Sheets of the respective Branches of the Bank collectively.

We have counted the Cash and examined the Bills held by the Bank at the Head Office in Sydney on the 31st December, 1911, and hereby certify that we have found them correct. We further certify that all Vouchers, Accounts and Documents necessary for verifying the Balance Sheet have been submitted to us.

The Cash, Bills and other Securities held at the Branch Banks in New South Wales and Queensland on the date of Balancing have been certified to as being correct by the usual documents, and the figures of the Balance Sheet of the London Branch have been received by cable.

In our opinion the Balance Sheet is a full and fair Balance Sheet, containing the particulars required by the Articles of Association of The Australian Bank of Commerce Limited, and properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as shown by the Books of the Company.

WILLIAM CRAIG, F.C.P.A.,
G. MASON ALLARD, F.C.P.A., } *Auditors*

Exception might be taken to the inclusion of the item "Inscribed Deposits" with the capital, as these represent moneys owing to depositors of the Bank rather than cash paid in by the shareholders.

Rebate on Current Bills.—This item represents the unearned proportion of the discount charged to customers on bills which have been discounted by the Bank and which are still unmatured at the date of the Balance Sheet. In discounting a bill the Bank pays its customer the present value, and it is clear that the full amount of the discount charged will not be earned by the Bank until the due date. Such unearned proportion is, therefore, carried forward and shown as a liability in the Balance Sheet.

Notes in Circulation.—This represents the amount of the Bank's notes, which are still unpresented. With the advent of the Federal Government Note Issue the associated Banks are gradually paying off their own notes, and in time this item will disappear altogether.

Bills in Circulation.—This includes drafts issued by the Bank on its own branches and drafts accepted by the Bank which are outstanding on Balance day.

Balances Due to Other Banks.—This represents the moneys due to the other banks, on the exchanges, for cheques on this Bank or its agents received through other associated Banks. The contra to this item will be seen on the Assets side under the heading "Balances due by other Banks," which represents the amounts owing by the other banks to this Bank for cheques on those banks presented to them by the Bank of Commerce.

Assets Side—Cash at Short Call in London.—This represents, in general terms, moneys advanced, principally to bill brokers, and repayable within a few days.

Australian Notes.—This is the amount of the Australian Commonwealth Government Notes acquired by the Bank and held at balancing date.

Outstanding Letters of Credit.—It will be noted that this item is shown on both sides of the Balance Sheet, appearing as a Contingent Liability on the one side and as a liability of customers on the other side. The Bank has, at the request of certain of its customers, issued letters of credit undertaking that the drafts drawn on those customers, upon the terms provided for in the letters, will be met on presentation. The Bank therefore includes this undertaking as a Contingent Liability. On the other hand, these drafts will be charged by the Bank, upon acceptance by their customers, against

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those customers' accounts, and this constitutes a corresponding set-off to the liability shown.

Profit and Loss Account.—It is not customary for a Bank to supply details of this account, and this policy has been adopted here. The net profit for the year is £12,268 11s. 5d., as the interest on the Inscribed Deposits must be deducted from the profits shown for the half-year, seeing that these deposits are outside liabilities.

The Auditors' certificate and report have been included as providing a very good specimen of what should be contained in such a certificate for a banking company.

INSURANCE COMPANY.—The published accounts of the South British Insurance Co., Ltd., provide a good sample of the style of statements presented by insurance companies carrying on a general business. The Revenue Account and Balance Sheet of a Life Insurance Company are supplied in connection with the chapter on Insurance Companies' Accounts, and the reader should make a comparison of the statements supplied herewith with those contained in the chapter mentioned.

It will be noticed that the Revenue account, Profit and Loss account, and Balance Sheet are headed as being Statements of Accounts "for the year ended 31st August, 1911." It is obvious, of course, that this is incorrect as applied to the Balance Sheet, which is a statement of the position of the company as at a particular date. This matter, however, is dealt with fully in the chapter on "Criticism of Accounts."

Revenue Account.—The majority of the items in this account are self-explanatory. The item on the credit side, "Amount Required to re-insure Current Risks," represents the proportion of the premiums unexpired at the end of the previous year, carried forward to this year, and this amount would be shown in the previous Balance Sheet as a liability. The corresponding item on the debit side of the Revenue account represents the proportion of Unexpired Premiums carried forward to next year, and a reference to the Balance Sheet will show this amount under the heading of "Re-insurance Reserve" (the use of the word "fund" is incorrect)

The Profit and Loss account is in reality a combination of a Profit and Loss account and an Appropriation account. It includes, on the credit side, the balance brought forward from the previous year, and, on the debit side, a number of items which are appropriations of profits together with other items which are charges against profits. The items, "Dividends Paid," "Contribution to Officers' Funds," and "Amount transferred to Reserve Fund," represent appropriations of profits,

The South British Insurance Company, Limited.

Statement of Accounts for the Year ended 31st August, 1911.

REVENUE ACCOUNT.

Dr.

	£	s.	d.
To Fire, Marine, and Accident Losses paid and outstanding	187,832	9	9
,, Agents' Commissions, Salaries, and other Expenses	78,801	8	8
,, Advertising, Printing, and Stationery	8,580	19	2
,, Contributions to Underwriters' Associations and Fire Brigades	7,062	0	10
,, Government Licenses and Rates and Taxes	8,815	12	6
,, Amount required to Re-insure Current Risks, 31st August, 1911	150,000	0	0
,, Balance carried to Profit and Loss Account	87,174	3	9
	£528,266	14	8

Cr.

	£	s.	d.
By Amount required to Re-insure Current Risks, 31st August, 1910	140,000	0	0
,, Fire, Marine, and Accident Premiums (less Re-insurances)	353,240	1	6
,, Interest and Rents Received and Accrued	35,026	13	9
	£528,266	14	6

PROFIT AND LOSS ACCOUNT.

Dr.

	£	s.	d.	£	s.	d.
To Dividend paid October, 1910	17,500	0	0			
,, Dividend paid April, 1911	17,500	0	0			
				35,000	0	0
,, Sinking Fund—Auckland Leasehold				200	0	0
,, Sinking Fund—London Leasehold				225	0	0
,, Amount written off Office Furniture				2,144	12	1
,, Contribution to Officers' Superannuation and Provident Funds				4,303	2	8
,, Amount Transferred to Reserve Fund				40,000	0	0
,, Balance carried to Balance Sheet				48,598	9	1
				£130,471	3	10

Cr.

	£	s.	d.
By Balance brought from August, 1910	43,297	0	1
,, Balance brought down from Revenue Account	87,174	3	9
	£130,471	3	10

BALANCE SHEET.

Cr.

LIABILITIES

	£	s.	d.	£	s.	d.
To Authorised Capital—400,000 Shares at £5 each	2,000,000	0	0			
,, Subscribed Capital—200,000 Shares at £5 each	1,000,000	0	0			
,, *Less* Uncalled Capital—200,000 Shares at £4 10s each	900,000	0	0			
,, Capital Paid Up				100,000	0	0
,, Reserve Fund				380,000	0	0
,, Re-insurance Reserve Fund				150,000	0	0
,, Reserve for Outstanding Losses				76,299	0	0
,, Auckland Leasehold Sinking Fund				2,605	5	6
,, London Leasehold Sinking Fund				1,724	1	2
,, Investment Fluctuation Reserve Fund				2,563	19	7
,, Bills Payable and Sundry Creditors for open Accounts				18,224	16	7
,, Balance brought down from Profit and Loss Account				48,598	9	1
				£780,015	11	11

Dr.

ASSETS.

		£ s. d.	£ s. d.
By Landed Property		257,984 4 9	
,, Loans on Mortgage		222,689 14 0	
,, Fixed Deposits		66,000 0 0	
,, Stocks and Debentures		31,712 8 5	
,, Municipal and Harbour Board Debentures as under—			
Auckland City Council 4%	£15,000 0 0		
Auckland City Council 6%	100 0 0		
Auckland Harbour B'd 4%	8,000 0 0		
Dunedin City and Suburban Tramways 4½%	10,000 0 0		
Borough of New Plymouth 4½%	10,000 0 0		
Wellington City 4%	5,000 0 0		
,, Harbour B'd 4%	1,800 0 0		
,, Water Works 6%	2,000 0 0		
		51,900 0 0	
Government Securities as under—			
Cape of Good Hope 3½%	9,800 0 0		
Japanese Imperial 4%	10,000 0 0		
New South Wales 3½%	9,700 0 0		
South Australian 3½%	5,700 0 0		
Victorian 3½%	7,700 0 0		
Queensland 3%	2,500 0 0		
West Australian 4	5,000 0 0		
		50,400 0 0	
		680,686 7 2	
,, Cash in Banks and Bills of Exchange in Transitu		29,181 16 1	
			709,868 3 3
,, Balances at Branches and Agencies			56,748 9 8
,, Bills Receivable			1,941 14 5
,, Sundry Debtors for Open Accounts			7,457 4 7
,, Furniture at Offices			4,000 0 0
			£780,015 11 11

We have examined the above Balance Sheet and Accounts, and compared them with the Books and Vouchers, and found them to be correct. We have obtained all the information and explanations required by us. We are of opinion that the Balance Sheet is properly drawn up, so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of the information and the explanations given to us and as shewn by the books of the Company.

(Signed) G. S. KISSLING, W. BEAMISH A. MORRISON, } AUDITORS

WE CERTIFY —

(1.) That in our belief the assets set forth in the above Balance Sheet are, in the aggregate, fully of the value stated therein. The book values of the Stock Exchange securities are, in the aggregate, under the market values, which market values are arrived at by taking the middle prices on the last day of the year, less accrued interest and dividends.

(2.) That part of the Company's assets has been deposited under local laws, in various places out of the United Kingdom and New Zealand, as security to holders of policies there issued.

(3.) That no part of the Funds has been applied directly, or indirectly, for any purpose outside the provisions of the Company's Articles of Association.

(Signed) JOHN BATGER, CHAIRMAN

J. H. UPTON, W. R. WILSON, } TWO DIRECTORS

A. C. WOOLCOTT, ACTING-GENERAL MANAGER

G. S. KISSLING, W. BEAMISH A. MORRISON, } AUDITORS

Auckland, 19th September, 1911

whilst the amounts to provide for amortisation of leases and depreciation of furniture are charges against profits.

The actual net profit for the year is £84,604 11s. 8d., although this is not apparent on the face of the accounts.

These accounts supply an illustration of the provision for renewal of a lease by the establishment of a sinking fund, the sinking fund reserves appearing on the liabilities side of the Balance Sheet. The investment of these reserves will, of course, be included in the General Investments shown on the assets side.

Balance Sheet.—None of the items, with the exception of those already mentioned, requires explanation, as the Balance Sheet is set out in such a form as to make their nature apparent.

BUILDING SOCIETY.—The attached statements are interesting, if only for the reason that the Profit and Loss account is divided so as to show the actual net profit for the year at a glance. This is so unusual in published accounts that it calls for comment in this case. An explanation of the items in the Balance Sheet will make clear the various sources of income and the nature of the expenditure as shown by the Profit and Loss account.

Balance Sheet. Liabilities Side. Paid up Shares.—These represent those shares which have been paid up to the amount of £20 by members of the Society. Generally speaking, the basis upon which such shares are taken up is that they are to be paid for by instalments of so much per share per week. The shares which are in process of being paid up are included on the liabilities side under the heading of Investing Shares, and these, together with the Paid-up Shares, carry interest on the amounts paid up thereon.

Arrangements are made whereby members may receive advances against property purchased or owned by them.

Deposits.—These are amounts, lodged on fixed deposit with the Society, carrying interest.

The remaining items on this side call for no explanation.

Assets Side. Amount Due on Mortgages.—This represents the total advances to members on mortgage, the advances being repaid by way of instalments, such instalments including principal and interest. The total amount of the mortgages arranged for is £97,715 9s. 5d., but of this amount only £93,128 13s. 3d. has so far been advanced, the difference being handed over to the borrowing members upon completion of the buildings on the properties.

Industrial & Provident Permanent Benefit Building & Investment Society.

STATEMENT OF RECEIPTS AND EXPENDITURE FOR THE YEAR ENDED DECEMBER 31st, 1911

RECEIPTS.

December 31st, 1911.	£	s.	d.	£	s.	d.
To Re-payments of Advances	34,499	6	6			
,, Deposits ..	40,413	5	10			
,, Insurance Premiums	397	3	4			
,, Property Charges	326	2	1			
,, Survey and Valuation Fees	362	19	6			
,, Rents	177	1	0			
,, Unclaimed Dividends ..	77	2	0			
,, Commissions	37	10	8			
,, Investing Share Contributions	104	17	0			
,, Fines	28	17	4			
,, Interest on Bank Deposit	9	17	0			
,, Transfer Fees... ..	1	18	0			
,, Sale of Pass Book and Rules ...	0	2	6			
,, Surplus on Sales Deposited	85	14	11			
,, Suspense Account	6	3	2			
				76,627	0	10
,, Overdraft Commercial Banking Coy. of Sydney, Limited				11,592	0	6
				£88,119	1	4

EXPENDITURE

January 1st, 1911.	£	s.	d.	£	s.	d.
By Overdraft Commercial Banking Coy. of Sydney, Limited				180	11	7
December 31st, 1911.						
,, Advances on Mortgage				39,914	13	6
,, Deposits Withdrawn				41,488	15	4
,, Interest Paid						
Paid-up Shares	2,575	4	0			
Deposits	1,299	7	6			
				3,874	11	6
,, Salaries, Directors' and Auditors' Fees . .	1,016	7	6			
,, Rates and Taxes	93	8	6			
,, Printing and Advertising	121	3	9			
,, General Expenses	57	8	8			
				1,288	8	5
,, Insurance Premiums				369	10	10
,, Property Charges				278	3	11
,, Investing Shares Withdrawn				55	15	6
,, Survey and Valuation Fees				355	13	6
,, Unclaimed Dividend Account				77	14	0
,, Interest on Bank Overdraft				168	6	9
,, Income Tax .				66	16	6
				£88,119	1	4

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 1911.

	£	s.	d.	£	s.	d.
To Interest on Paid-up Shares ..	2,576	4	0			
,, Interest on Investing Shares	6	4	0			
				2,681	8	0
,, Interest on Deposits Paid	885	1	4			
,, Interest on Deposits Accrued ...	646	11	5			
				1,431	12	9
,, Salaries, Directors' and Auditors' Fees	1,016	7	6			
,, Printing and Advertising ..	121	3	9			
,, Rates and Taxes	93	8	6			
,, General Expenses .	57	8	8			
				1,288	8	6
,, Interest on Bank Overdraft .				168	6	9
,, Income Tax				66	16	6
,, Advances Written off				119	1	5
				5,655	13	10
,, Balance, Surplus for Year				1,379	11	6
				7,035	5	3
,, Transfer to Reserve Fund ...				2,500	0	0
,, Balance as per Balance Sheet ..				487	12	6
				£2,987	12	6

	£	s.	d.	£	s.	d.
By Interest on Advances				6,722	14	7
,, Rent of Offices	177	1	0			
,, Commissions	37	10	8			
,, Fines . .	28	17	4			
,, Interest on Bank Deposit	9	17	0			
,, Transfer Fees ..	1	18	0			
,, Pass Book and Rules	0	2	6			
,, Survey and Valuation Fees	9	6	0			
,, Property Charges .	47	18	2			
				312	10	8
				7,035	5	3
,, Balance Brought Forward, 1st January, 1911				1,608	1	1
,, Balance as above				1,379	11	5
				£2,987	12	6

BALANCE SHEET, 31st DECEMBER, 1911.

LIABILITIES.

	£	s.	d.	£	s.	d.
Paid-up Shares (2146 of £20 each)				42,920	0	0
Deposits	31,128	6	4			
Accrued Interest ..	646	11	5			
				31,674	17	9
Commercial Banking Co. of Sydney, Ltd.				11,592	0	6
Investing Shares				387	7	2
Unclaimed Dividends	252	19	5			
Insurance Premiums ...	59	17	1			
Payments in Suspense ...	273	6	10			
				586	3	4
Reserve Fund—1st January, 1911	11,000	0	0			
Add Transfer from Profit and Loss Account	2,500	0	0			
				13,500	0	0
Profit and Loss Account, Balance at Credit				487	12	6
				£101,148	1	3

ASSETS

	£	s.	d.	£	s.	d.
Amount due on Mortgages	97,715	9	5			
Less payable on completion of Buildings	4,286	16	2			
				93,428	13	3
Freehold Property				7,500	0	0
London Bank Fixed Deposit				219	8	0
				£101,148	1	3

We hereby certify that we have examined the Books and Vouchers of the Industrial and Provident Permanent Benefit Building and Investment Society for the Twelve Months ended December 31st, 1911, and that the above Balance Sheet and Profit and Loss Account are in accordance therewith. In our opinion the Balance Sheet exhibits a correct view of the Society's affairs, as disclosed by the Books.

ERNEST J. ELLIS, Manager. SAMUEL JAMES CARRUTHERS, F.C.P.A., Directors' Auditor.

Sydney, January 24th, 1912. WILLIAM T. MORRIS, F.S.A.A., F.C.P.A., Shareholders' Auditor.

ROTHWELL'S LIMITED

BALANCE SHEET, 31st JANUARY, 1910

Capital and Liabilities.

	£ s. d.	£ s. d.
Authorised Capital—		
30,000 Shares of £1 each, £30,000 0 0		
Subscribed Capital—		
5,000 First Preference Shares fully paid	5,000 0 0	
10,000 Second " " "	10,000 0 0	
15,000 Ordinary " "	15,000 0 0	
30,000		30,000 0 0
Sundry Creditors—		
On Open Accounts	3,333 11 8	
On Pro. Notes	424 16 8	
		3,758 8 4
Commercial Banking Co. of Sydney, Ltd		1,203 12 3
General Reserve		3,500 0 0
Balance as per Profit and Loss Account		4,445 6 3
		£42,907 6 10

Assets.

	£ s. d.	£ s. d.
Stock on hand	14,357 8 7	
Goods in transit	172 2 6	
		14,529 11 1
Sundry Debtors—		
On Open Accounts	20,126 4 11	
On Pro. Notes	157 8 5	
		20,283 13 4
Fixtures and Plant	960 9 10	
Horses and Vehicles	458 2 0	
		1,418 11 10
Land and Buildings—		
New Warehouse, 237-241 Edward-street, Brisbane – Cost to date	16,932 2 6	
Less due on Mortgage at 4½ per cent	11,824 17 6	
		5,107 5 0
Cash—		
London	1,290 16 8	
Brisbane	18 7 3	
		1,309 3 11
Insurance Premiums		259 1 8
		£42,907 6 10

PROFIT AND LOSS ACCOUNT for the Thirteen Months ended 31st January, 1910.

	£ s. d.		£ s. d.
To Salaries, Rent, Travelling Expenses, Advertising, Commission, Directors' and Auditor's Fees, Insurance and General Trade Expenses	12,733 10 4	By Gross Profit on Trading after making provision for Bad and Doubtful Debts and Depreciation	16,971 19 5
" Balance being net profit for the period	4,238 9 1		
	£16,971 19 5		£16,971 19 5

	£ s. d.		£ s. d.
To Dividend paid April, 1909	1,550 0 0	By Balance forward, 31st December, 1908	4,095 0 0
" Amount transferred to Reserve Fund	2,000 0 0	" Net Profit, as above ... B/d	4,238 9 1
" Fire Losses written off	338 2 10		
" Balance as per Balance Sheet	4,445 6 3		
	£8,333 9 1		£8,333 9 1

MERCHANT.—None of the items in the Balance Sheet calls for special comment, but the method of deducting the amount due on mortgage of the land and buildings from the asset, instead of showing the item separately on the Liabilities side, is somewhat unusual, although perfectly correct. The item "Insurance Premiums" on the Assets side is the unexpired proportion of Insurance Premiums paid.

Profit and Loss Account.—Here again the Profit and Loss account is divided into two portions, in order to enable the actual net profit for the year to be shown. This account is interesting as showing the proper treatment of special losses made by a business. During the period covered by this account the premises occupied by the company were destroyed by fire, and, although the company was well insured, there were losses in connection with the fire apparently not covered by the policies. Any such loss is better shown as a charge against the Appropriation account, in order that the actual net trading profit for the period will not be obscured.

CO-OPERATIVE DAIRY COMPANY—Balance Sheet-Liabilities Side.—The inclusion of Uncalled Capital and Calls in Arrears in the one amount is incorrect, as the arrears of calls should be shown clearly in the Balance Sheet.

Marine Insurance Fund.—This company is apparently effecting its own insurances on shipments. In other words, it charges insurance premiums against the Profit and Loss account, and, instead of making the payments of these premiums to outside Insurance companies, it carries them to Insurance Reserve. Any losses which would be covered by marine insurances effected with outside companies will be charged against this reserve. Reference to the Profit and Loss account shows that, during the current year, an amount of £21 13s. 2d. has been charged against Profit and Loss account and added to the Marine Insurance Reserve.

Assets Side. Shares in Other Companies.—It is assumed that the Memorandum of Association of this company authorises it to hold shares in other companies. This is a matter which the Auditor of the company would require to look into.

Butter Account.—This shows the amount of milk, cream, etc., received from the suppliers, who are probably all members of the company, and the gross profits earned on the sales of butter.

Profit and Loss Account.—There is nothing to show on the face of these accounts the period covered by the Butter account and the Profit and Loss account, i.e., it is impossible to ascertain whether the accounts presented show the trading

The Co-operative Dairy Company, Ltd.,

Balance Sheet at 25th June, 1910.

LIABILITES	£	s	d	£	s	d
To 1986 Shares subscribed at £1 each	1986	0	0			
Less arrears and uncalled	1368	5	0	617	15	0
Reserve				200	0	0
Marine Insurance Fund				629	14	0
Sundry Creditors—						
Suppliers	4075	14	3			
General	290	2	3	4365	16	6
Balance Profit and Loss Account				1263	18	10
				£7077	4	4

ASSETS.	£	s	d	£	s	d
By Land ...				427	4	4
Buildings and Wharf ...	420	0	0			
Less Depreciation ...	20	0	0	400	0	0
Plant	1208	0	0			
Less Depreciation	63	0	0	1145	0	0
Shares in Coastal Farmers' Society				126	0	0
Shares in Co-operative Box Coy.				15	0	0
Sundry Debtors				2312	17	0
Stocks on Hand—						
Butter ..	480	0	0			
Material, Boxes, etc. ..	833	8	6	1313	8	6
Payments in Advance, Insurance and Telephone ..				9	15	9
Balance at Bank	1610	11	6			
Less Unpresented Cheques ..	309	2	1	1301	9	5
Cash on Hand				26	8	10
				7077	4	4

Butter Account.

	£	s	d
To Stock	2032	10	0
Suppliers	42,258	6	9
Profit and Loss	5937	0	11
	£50,227	17	8

	£	s	d
By Sales	49,747	17	8
Stock on Hand	480	0	0
	£50,227	17	8

Profit and Loss Account.

	£	s	d
To Audit and Directors' Fees	30	19	6
Accident and Fire Insurance	14	12	3
Boxes	1563	6	4
Bank Charges and Interest	20	12	1
Commission, less C F S. Bonuses	595	11	11
Cartage and Trainage	67	19	3
Exchange and Discount	62	3	7
Export Charges	1552	10	1
Fuel	569	1	9
Freight	1044	14	5
Incidental Expenses	53	12	9
Marine Insurance	21	13	2
Maintenance	32	5	1
Material	395	6	11
Petty Cash	29	10	9
Rates	5	7	6
Stationery, Stamps, and Telegrams	38	6	10
Wages	885	13	1
Bad Debts	31	10	6
Depreciation	63	0	0
Balance	1263	18	10
	£8361	18	7

	£	s	d
By Balance brought forward	217	12	11
Butter Account ...	5937	0	11
Butter Milk	32	11	7
Dividend C.F.S. Shares	7	11	3
Export balances received	2136	1	11
Rent	1	0	0
	£8361	18	7

results for six months, twelve months or more. A reference to the Directors' report throws no light on this question. The meeting is called the Seventh Annual Meeting of Shareholders, but the first item in the Report shows the increase in the quantity of butter manufactured in the "half-year ended 25th June." This is a very serious omission, as, unless the term covered by the accounts is ascertainable, the accounts will supply very little information to shareholders. It is impossible to find out, for example, whether the depreciation on plant is at the rate of 10 per cent. for six months or 5 per cent. for twelve months.

MANUFACTURING COMPANY.—Sydney Meat Preserving Company. Balance Sheet—Liabilities Side.—An interesting item on this side is the Reserve for the purpose of providing for the acquisition of additional assets. This

BALANCE SHEET

OF

The Sydney Meat Preserving Company, Ltd.

Dr. 30TH JUNE, 1910. **Cr.**

	£	s.	d.	£	s.	d.
To Capital—4,063 Shares at £5 each				20,315	0	0
„ Bank of New South Wales overdraft				23,207	1	10
„ Sundry Creditors				17,571	1	7
„ Reserve Account—						
Balance at 31st December, 1909	45,565	10	8			
Added this date	10,780	5	10			
				56,345	16	6
„ Reserve for adding Freezing Works and the necessary machinery for Wool Scouring to the present plant	11,837	18	6			
Less expended on account of 2 Motor Waggons	500	0	0			
				11,337	18	6
„ Shipments in suspense . ..				2,102	14	0
				£130,879	12	5

	£	s.	d.
By Land, Premises, Plant and Tramway ...	31,090	16	8
„ Stock of tin plates, wood cases, casks, &c., on hand this date	2,939	13	6
„ Stock of meats, soups, extract, tallow, wool, &c., on hand this date	30,531	5	7
„ Sheep and Cattle on hand this date	7,647	17	11
„ Cash in hand	24	15	1
„ Sundry Debtors	58,645	3	8
	£130,879	12	5

PROFIT AND LOSS ACCOUNT,

Dr. For the Half-year ended 30th June, 1910. **Cr.**

	£	s.	d.
To Expenditure for the half-year ended 30th June, 1910, viz.:—			
Sheep, cattle, and slaughtered meat	274,140	16	1
Tin plates, casks, wood cases, labels and other materials used	24,970	0	6
Repairs, maintenance, general expenses, &c.	2,395	12	0
Carriage	3,784	0	0
Manager's Salary and General Wages ...	26,599	19	4
Directors' and Auditors' Fees, Secretary's and Clerks' Salaries, office rent, &c .	806	14	10
Interest	93	19	2
Income Tax	373	3	6
Fire Insurance	547	8	8
London Agency Expenses . ..	2,749	12	7
„ Bad Debt	1	9	9
„ Balance transferred to Reserve Account ...	10,780	5	10
	£347,243	2	3

	£	s.	d.
By Receipts, &c., for half-year ended 30th June, 1910, viz.:—			
Meats, soups, extract, tallow, wool, pelts, hides, fertilizer, hoofs, horns, &c., sold, shipped, and in stock, and subsidy	339,595	4	4
Sheep and Cattle on hand this date	7,647	17	11
	£347,243	2	3

A. R. THOMSON,
SECRETARY.

Examined and found correct,

ALFRED J. SIMSON
HENRY CHAS. MITCHELL } AUDITORS

The Greater J. D. Williams Amusement Co. Ltd.

BALANCE SHEET.

Dr. 31st December, 1911. Cr.

LIABILITIES.	£ s. d.	£ s. d.	ASSETS.	£ s. d.
Nominal Capital 200,000 Shares of £1 each	200,000 0 0		Cost of Freehold land and Buildings, Melba Theatre, (Subject to lien of Vendors for payment of balance of £12,000)	32,203 12 2
Capital subscribed :— 148,281 Shares fully paid		148,281 0 0	Cost of Leaseholds, Sydney and Melbourne, and Deposit paid *re* Bourke St. Lease (Less Depreciation for effluxion of Leases...	24,849 11 3
Vendors of Land, Melba Theatre		12,000 0 0	Stock of Films, Merchandise and Sundries	36,212 8 9
Sundry Creditors		2,797 14 9	Plant, Furniture and Fittings (Less Depreciation)	6,508 11 5
Profit and Loss Profit to date subject to provision for Income Tax.	33,210 8 4		Book Debts and Payments for Goods to arrive (less reserve for Bad and Doubtful Debts)...	9,819 9 11
Less Interim Dividends paid	16,088 17 3		Cash in Banks and on hand	15,912 6 8
		17,121 11 1	Initial Expenses of Theatres and Film Branch	852 9 1
			Formation Expenses	141 16 7
			Goodwill	53,700 0 0
		£180,200 5 10		£180,200 5 10

PROFIT AND LOSS.

Dr. 2nd December, 1910, to 31st December, 1911. Cr.

	£ s. d.		£ s. d.
To Administration and Head Office Expenses	5,110 13 7	By Profit on Films, Merchandise and Theatres	38,813 1 0
„ Amounts written off Plant, Furniture, Fittings and Leases ...	2,499 16 5	„ Colonial Theatre Ltd. Dividends...	1,924 0 8
„ Balance, being Net Profit subject to provision for Income Tax ...	33,210 8 4	„ Interest ...	83 16 8
	£40,820 18 4		£40,820 18 4

Reserve amounts to £11,837 18s. 6d., and has been built up out of profits. On looking to the Assets side for a corresponding item, the investment of this reserve is conspicuous by its absence, although, seeing that the company is working on a large Bank overdraft, it is obvious that gilt-edged securities would produce a far lower rate of interest than the company is paying to the Bank. The treatment of the cost of acquiring the two motor waggons is clearly incorrect. These motor waggons should be included with plant on the Assets side, as the mere fact of their being acquired does not decrease

ROYAL ALEXANDRA HOSPITAL FOR CHILDREN.

Statement of Revenue and Expenditure for the Year ended 31st December, 1911.

1911. Dec. 31. REVENUE.	£ s. d.	£ s. d.
To Subscriptions and Donations	5,449 8 6	
,, Entertainments	173 4 8	
,, Perpetual Cot Endowment	1,000 0 0	
,, *Patients' Contributions—*		
Indoor	785 4 2	
Outdoor	354 17 3	
		7,762 14 5
,, Interest on Investments		975 5 11
,, Rents		46 7 6
,, Sundries		81 5 3
		8,865 13 1
,, N.S.W. Government Subsidy		4,695 6 9
,, Balance		696 19 4
		£14 256 19 2

1911. Dec. 31. EXPENDITURE	£ s. d.	£ s. d.
By Balance at 31st December, 1910		391 3 2
,, Salaries and Wages,		5,457 16 7
,, Auditors' Fees.		10 10 0
,, *Provisions—*		
Meat	360 6 7	
Bread	199 14 4	
Milk	597 10 6	
Butter and Eggs	339 15 5	
Fish and Poultry	8 3 0	
Vegetables and Fruit	182 2 5	
Groceries	555 11 5	
Ice	23 13 0	
		3,266 16 5
,, *Surgery and Dispensary—*		
Drugs	1,309 13 11	
Surgical Dressings	163 10 10	
Surgical Instruments	105 8 4	
Radiography and Pathology Department	78 19 9	
Wines and Spirits	42 18 0	
Malt Liquors	13 5 0	
Aerated Waters	4 10 0	
		1,718 6 10
,, *Domestic—*		
Bedding, Linen and Drapery	161 0 11	
Hardware	537 19 0	
Washing Material	95 12 1	
Fuel and Lighting	1,023 12 10	
		1,818 4 10
,, *Establishment Charges—*		
Rates and Taxes	109 6 5	
Insurance	72 11 4	
Alterations and Repairs	21 10 5	
Telephones	35 0 10	
Interest on Overdraft	16 1 3	
Interest on Mortgages	490 12 7	
Cleaning	25 11 0	
Rents	130 0	
		899 13 10
By *Miscellaneous—*		
Printing and Stationery	246 17 5	
Advertising	37 10 0	
Funerals	16 6 0	
Miscellaneous	367 13 3	
		668 6 8
,, Additions to Out-Patients' Department		26 2 10
,, Investment of Perpetual Cot Endowment		1,000 0 0
		£14,256 19 2

LEGACY ACCOUNT.

1911. Dec. 31. REVENUE.	£ s. d.	£ s. d.
To the late Mrs. J. T. Neale, on account	3,000 0 0	
,, The late Sir Peter N. Russell	1,000 0 0	
		4,000 0 0
		£4,000 0 0

1911. Dec. 31. EXPENDITURE.	£ s. d.	£ s. d.
By Additions to Laundry, on account	300 0 0	
,, Laundry Machinery	443 0 0	
,, Additions to Diphtheria Department	567 9 6	
,, Furniture, etc., Diphtheria Department	126 16 7	
,, Machinery and Tools for new Splint Department	21 5 0	
,, Stock of Mosquito Net for Cots	85 12 5	
,, Additions to Hospital and Outside Painting	334 8 9	
		1,878 12 3
,, Investment of Russell Legacy in Government Stock		1,000 0 0
Balance to be expended on Additions and Improvements to Hospital		1,121 7 9
		£4,000 0 0

JAMES ROBERTSON,
H. RUSSELL CRANE & CO., } Auditors.

THOS. PRATT,
Hon. Treasurer.

ROYAL ALEXANDRA HOSPITAL FOR CHILDREN.

DR. **Balance-Sheet** **31st December, 1911.** CR.

LIABILITIES.	£	s.	d.	£	s.	d.
Building Fund	49,176	6	9			
Furniture Fund	360	5	0			
Endowment Fund (Legacies)	1,022	0	0			
Cot Endowment Fund ...	15,632	18	3			
				66,191	10	0
Legacies and Permanent Trust Fund—						
Hunter Baillie Legacy ...	10,400	0	0			
Subscribers' Perpetual Trust Fund	750	0	0			
Perpetual Annual Contributions	30	0	0			
				11,180	0	0
Loans on Mortgage—						
Perpetual Trustee Coy., Ltd.	12,500	0	0			
E. R. Fairfax	2,500	0	0			
				15,000	0	0
Working Account				5,220	4	7
				£97,591	14	7

ASSETS	£	s.	d.	£	s.	d
Freehold Property, Camperdown	6,000	0	0			
Permanent Structure	42,188	19	6			
Out-patients' Building, Valentine Street	2,380	0	0			
Out-Patients' Building, Valentine Street—additions 1910-1911 ...	3,024	4	2			
Nurses' Home	10,653	0	5			
Diphtheria Block – additions .	567	9	6			
				64,813	13	7
Furniture and Fittings	2,348	3	6			
Machinery and Fittings ...	1,098	2	2			
Laundry Machinery	443	0	0			
				3,889	5	8
Loans on Mortgage	9,132	18	3			
N.S.W. Govt. Funded Stock	15,275	0	0			
N.S.W. Govt. Inscribed Stock	2,000	0	0			
New Zealand Govt. 4% Debentures	2,000	0	0			
Commercial Banking Coy. of Sydney, Ltd.—Fixed Deposit	30	0	0			
				28,437	18	3
Cash on hand—						
Commercial Banking Coy. of Sydney, Ltd.	425	8	5			
Savings Bank	5	8	8			
Petty Cash on hand	20	0	0			
				450	17	1
				£97,591	14	7

JAMES ROBERTSON,
H. RUSSELL CRANE & CO., } Auditors.

THOS PRATT,
Hon Treasurer.

the Reserve built up out of profits. If this procedure is continued, by the time the company has erected its freezing works and has acquired the necessary machinery for wool-scouring the Reserve will be wiped out of the books altogether, and nothing will appear in the Balance Sheet to represent the assets acquired. The company will then have a secret reserve to the extent of those assets.

Shipments in Suspense.—This represents goods shipped, the amount of the proceeds of which has not been ascertained at the date of balancing.

Profit and Loss Account. Credit Side.—In all probability the item "Receipts" shown herein is intended for "Income." The subsidy shown in the next item arises from contributions made by graziers to the company for the company's services in buying up cattle, etc., when the markets are low, thus tending to keep up the prices.

AMUSEMENTS COMPANY.—The Balance Sheet of The Greater J. D. Williams Amusements Co., Ltd., is supplied, and, as the items shown in this statement explain their nature clearly, no comment is necessary. There is a great paucity of information in the Profit and Loss account, and it is impossible for anyone to ascertain the proportion of depreciation written off the various assets disclosed in the Balance Sheet.

CHARITABLE INSTITUTION.—The published statements of The Royal Alexandra Hospital for Children are subjoined. It will be noted that a statement of Cash Receipts and Payments has been presented, and this shows on the Receipts side the whole of the income for the period. Such a statement is usual for this class of institution, as patrons are more interested in knowing what liquid funds the institution has available for the purpose of enabling it to carry on, than if the income for the year suffices to meet the expenditure.

Balance Sheet.—The items in the first two sections on the Liabilities side show legacies, etc., specially contributed for the purposes shown. These amounts are invested, and the income is utilised in furtherance of these objects.

SHIPPING COMPANY.—The published statements of the P. and O. Steam Navigation Co., Ltd., are supplied herewith.

The General Working account gives a good deal of detailed information with regard to the expenses incurred in carrying on this Company's business, and a careful perusal of this account is recommended.

Referring to the Balance Sheet, it will be noted that the liabilities are stated on the right hand side and the assets

STATEMENT OF ACCOUNTS OF THE

For the Year ended

Dr. GENERAL WORKING

EXPENDITURE.		£ s. d.	£ s. d.
Expense of Navigating Ships, &c.—			
Coal, including freight and all charges		807,360 15 0	
Lubricating and Lamp Oils and Water		41,713 14 5	
Port and Light Dues, Pilotage, Towage, and Miscellaneous Ships' Charges		239,829 12 1	
Pay of Commanders, Officers and Crews		346,503 5 8	
			1,435,407 7 2
Provisioning of Passengers, Commanders, Officers and Crews ...			338,633 10 1
Suez Canal Dues—On Ships and Passengers			344,992 7 0
General Administration at Home and Abroad, viz.—			
Directors' and Auditors' Fees		5,105 0 0	
Salaries and Wages of Employés		123,425 11 8	
Rents, Taxes, Fire Insurance and Repairs of Premises		15,914 10 7	
Telegrams, Telephones, Wireless Telegraphy, and Stamps		16,987 8 1	
Advertising...		14,480 6 9	
Stationery and Printing...		7,705 3 8	
Office and House Expenses, Travelling Charges, &c.		14,572 13 9	
			198,190 14 6
Miscellaneous Expenses—			
Damages, Claims on Cargo, and Law Charges		22,280 1 4	
Life Assurances of Employés—Company's Contribution		4,462 12 11	
Quarantine Charges		3,413 12 10	
			30,156 7 1
Compensation to Passengers, s.s. "Himalaya" October, 1910...			8,975 11 7
Ships' Repairs, Stores, and General Maintenance Charges during present year			205,810 14 1
Interest on $3\frac{1}{2}$ per Cent. Debenture Stock			63,000 0 0
Insurance Charges, viz.—			
Fire Insurance in Port, and risks to and from Antwerp, &c....		5,621 4 10	
Sundry claims, Damages through stress of weather, and other casualties		5,062 15 3	
			10,684 0 1
Stock in Ships—			
Amount carried to that Account for Depreciation on Fleet during the year ... ... Ordinary		425,041 12 4	
Extra		134,500 0 0	
			559,541 12 4
Surplus—			
Dividends due 11th May, 1911, viz.—			
On Preferred Stock, 2½ per cent.	£29,000 0 0		
On Deferred do. 3½ ,, ...	40,600 0 0		
		69,600 0 0	
Dividends payable 19th December, 1911—			
On Preferred Stock, 2½ per cent.	£29,000 0 0		
On Deferred do. 6½ ,, ...	75,400 0 0		
Bonus on do. do. 3 ,, ...	34,800 0 0		
	139,200 0 0		
Balance forward to 1911-1912	67,616 15 1		
		206,816 15 1	
			276,416 15 1
			£3,471,808 19 0

Peninsular and Oriental Steam Navigation Company,
30th September, 1911.

ACCOUNT. Cr.

RECEIPTS.	£ s. d.	£ s. d.
Amount brought forward from last Account	206,381 13 7	
Less:		
Dividends, &c., due 20th December, 1910	139,200 0 0	
		67,181 13 7
Passage Money	1,294,421 0 11	
Freight, Charters, and Miscellaneous Services	1,721,666 9 2	
		3,016,087 10 1
Government Contract Services—		
India, China and Australia (net amount)		296,137 0 1
Interest, Discount and Exchange—		
Balance of Account		92,402 15 3
		£3,471,808 19 0

Dr. GENERAL BALANCE SHEET.

ASSETS.			£ s. d.
Stock in Ships, viz. :-			
Reduced Book Value of Fleet at 30th Sept., 1910...		£3,655,561 10 0	
Deduct			
Proceeds of S.S. "Japan" ...	£8,497 17 0		
Amount written off Fleet, as per General Working Account ...	559,541 12 4		
		568,039 9 4	3,087,522 0 8
Payments on account of New Ships			786,528 11 9
Steam Tenders, Launches, and Lighters			107,688 8 11
Coal, Naval and Victualling Stores...			31,726 15 9
Graving Docks, Workshops and Machinery, Wharves, Buildings and Land (Freehold and Leasehold), Moorings, &c.			319,723 4 3
Cash at Bankers, in hands of Agents, and Investments (less acceptances)			2,665,603 11 2
			£6,998,792 12 6

on the left, but nobody is likely to be misled thereby, as the headings are shown distinctly. This statement might contain a good deal more information. For example, the term Suspense account, shown on the Liabilities side, gives no clue as to the nature of the composition of this item of £250,000. It may be a general reserve built up to cover the unearned proportion of passengers' return fares, or freights on uncompleted voyages, with the object of saving the calculation of these items in detail at the end of each financial period. It may, on the other hand, have something to do with the Insurance Reserve, although this is hardly likely, as the amount is not large enough. This Company effects its own insurances, and, although no reserve is disclosed in the Balance Sheet, it is probably hidden by an understatement of the value of the Stock of Ships. Provident and Good Service Fund is, in all probability, a pension fund for retired officers.

CIVIL SERVICE CO-OPERATIVE SOCIETY.—The annual statements of the Civil Service Co-operative Society of New South Wales, Limited, are supplied. The business of the Society is conducted on a cash basis, but provision is made in the rules whereby shareholders who desire the convenience

30th September, 1911. **Cr.**

LIABILITIES.		£ s. d.
Capital authorized: £3,500,000		
Issued in Cumulative 5 per cent. Preferred Stock ...	£1,160,000 0 0	
Do. in Deferred Stock	1,160,000 0 0	
		2,320,000 0 0
Debenture Stock at 3½ per cent.		1,800,000 0 0
Reserve Account		1,250,000 0 0
Suspense Account		250,000 0 0
Provident Good Service Fund		50,000 0 0
Sundry Balances; and Accounts not closed		1,121,975 17 5
General Working Account—		
Surplus	£276,416 15 1	
Less Dividends due 11th May, 1911 ...	69,600 0 0	
		206,816 15 1
		£6,998,792 12 6

of paying their accounts at regular intervals can do so by making deposits with the Society. They can then have goods supplied to them for payment, say, monthly, but not exceeding the value of the deposits made. The above explanation will enable all the items on the Liabilities side of the Balance Sheet to be understood without difficulty. With regard to the Assets side, the only item calling for any explanation is "Equalisation of Rent, £4195 6s. 1d." The name given to this item, although it describes its nature accurately, is unusual, and a shareholder not possessed of a knowledge of the facts would be unable to arrive at its meaning with any degree of certainty. It represents a premium paid for the lease, the amount of the premium being treated as capital expenditure to be written off over the term. This item might have been called "Premium for Lease," a heading which would be more readily understood.

GOLD-MINING COMPANY, LIFE INSURANCE COMPANY, SHEEP AND CATTLE STATION.—Specimen Balance Sheets of the above classes of concern are supplied, in conjunction with Chapters 13, 21 and 22 respectively, and reference should be made thereto.

The Civil Service Co-operative Society of New South Wales, Limited.

Dr. BALANCE SHEET, JANUARY 31, 1912 *Cr*

LIABILITIES.	£ s. d.	£ s. d.
To Capital Authorised		
14,000 Shares of £1 each	14,000 0 0	
Less Unallotted Capital	116 0 0	
Capital paid up		13,884 0 0
„ New Premises Building Loan ..		7,500 0 0
„ Reserve Fund		33,000 0 0
„ Dividends unclaimed		2,731 19 4
„ Bills payable . .. . - ..		142 19 9
„ Sundry Creditors	15,059 8 6	
„ Customers' Deposits & Credits	4,261 15 4	
		19,321 3 10
		76,580 2 11
„ Balance Profit and Loss .		14,582 6 2
		£91,162 9 1

ASSETS.	£ s. d.	£ s. d.
By The Commercial Banking Co. of Sydney, Ltd. .		
Fixed Deposit		3,000 0 0
Balance on Current Account . ..		5,901 2 3
„ Cash on hand		1,149 2 1
„ Stock	43,238 4 8	
„ Office Stationery	449 15 11	
		43,688 0 7
„ Customers' Debits	9,498 18 3	
„ Sundry Debtors	70 10 7	
		9,569 17 10
„ New Premises		7,500 0 0
„ Extension of Premises	7,505 1 4	
Less written off	325 0 0	
		7,180 1 4
„ Furniture and Fittings ..	9,799 9 10	
Less written off	1,216 19 10	
		8,582 10 0
„ Equalization of Rent		4,195 6 1
„ Annual Charges paid in advance		396 8 11
		£91,162 9 1

Dr PROFIT AND LOSS ACCOUNT *Cr.*

FOR HALF-YEAR ENDED 31st JANUARY, 1912

	£ s. d.
To Working Expenses	25,809 13 10
„ Discount on Shareholders' Monthly Accounts ..	185 16 9
„ Written off Furniture and Fittings . ..	1,216 19 10
„ Written off Extension Account	325 0 0
	27,537 9 5
„ Balance carried to Profit and Loss Appropriation Account	13,418 18 1
	£40,956 7 6

	£ s. d.	£ s. d.
By Gross Profit		39,330 12 4
„ Discount for Cash Payments ..	1,588 12 5	
„ Interest Fixed Deposit	52 10 0	
	1,641 2 5	
Less Interest Bank Account	15 10 3	
		1,625 12 2
„ Sale of Rules		3 0
		£40,956 7 6

PROFIT AND LOSS APPROPRIATION ACCOUNT

September 29th, 1911.	£ s. d.	£ s. d.
To Reserve Fund	1,000 0 0	
„ Dividend at rate of 10% for half-year ended 31st July, 1911	694 4 0	
„ Bonus of 2/3 in £ on Shareholders' Cash Purchases for half-year ended 31st July, 1911	9,795 14 5	
		11,489 18 5
„ Bonus to Directors		300 0 0
„ Bonus to Officers and Employees		596 13 0
		12,386 11 5
Less Bonuses unclaimed		381 16 2
Total Appropriation		12,004 15 3
„ Balance		1,163 8 1
		£13,168 3 4

August 1st, 1911	£ s. d.
By Amount at credit of Profit and Loss Account at 31st July, 1911	13,168 3 4
	£13,168 3 4
By Balance	1,163 8 1
January 31st, 1912	
By Balance brought from Profit and Loss Account being Net Profit for half-year ended 31st January, 1912	13,418 18 1
	£14,582 6 2

Dr. RESERVE FUND ACCOUNT *Cr.*

1911		£ s. d.
August 1—	By Balance	32,000 0 0
September 29—	„ Profit and Loss	1,000 0 0
		£33,000 0 0

CHAPTER XXXV.

FEDERAL INCOME TAX.

It is not practicable in a general work of this nature to do more than deal very briefly with the main points of a subject of such vast importance. Those desiring to make a study of the question are referred to one of the several text books dealing exclusively with taxation matters.

The Commonwealth Income Tax was introduced in 1915, the original Income Tax Assessment Act (the Machinery Act) and the Income Tax Act (Rates of Tax Act) both being assented to on the 13th September, 1915. The Assessment Act was amended in 1915, 1916, 1918 and 1921.

In this chapter, the Act, including all amendments to date, is dealt with, and at the end a summary is provided showing the effect of the several amendments of the original Act so far as they relate to the principles of assessment and other matters of interest to accountants and their clients, thus enabling the effect of the tax in relation to assessments for earlier years to be considered.

The Income Tax Assessment Act remains in operation until repealed, but the Income Tax Act, which imposes the tax, is applicable only for one year, and requires re-enactment annually.

Financial Year.—The financial year provided by the Act is that ending on the 30th June, and assessments for one financial year are based on the income of the preceding twelve months. For example, the first financial year for which Federal Income Tax was levied was the year 1915/16, the income included in the assessments for that year being that of the year ended 30th June, 1915.

Scope of the Act.—The Federal Income Tax applies to all income derived from sources within Australia and Papua, but does not apply to income derived from Papuan sources by a resident of that place, nor to income earned in Papua from personal exertion by any person while there.

Income.—Income is divided into two classes—"Income from personal exertion" and "income from property."

"Income from personal exertion" means income consisting of earnings, salaries, wages, commissions, fees, bonuses, pensions, super-annuation allowances, retiring allowances and gratuities not paid in a lump sum, allowances and gratuities received in the capacity of employee, whether in cash or kind, and the proceeds of any business carried on by the taxpayer, either alone or as a partner, or by a trustee under any will, settlement, deed of gift, or instrument of trust, under which the taxpayer is entitled to income, and any income from any property where the income forms part of the emoluments of any office or employment of profit held by the individual.

Where a person whose principal place of business is outside Australia and who, either as owner or charterer of a ship, carries passengers or goods shipped in Australia, his income derived therefrom is deemed to be 10 per cent. on the amount paid for such carriage.

"Income from property" means all income not derived from personal exertion, and specifically includes:—

(a) Dividends, interest, profits or bonuses credited or paid to a depositor, member, shareholder, or debenture-holder of a company which derives income from an Australian source, or of a company which is a shareholder in another company earning Australian income.

The exceptions to this are:—

(1) Where a company derives part of its income from a source outside Australia, the dividends paid by that company are taxable to the shareholders only as to that proportion which corresponds with the ratio that the Australian income of the company bears to its total income from which the dividend has been paid.

(2) Profits which were accumulated prior to 1st July, 1914, in a Reserve or other account, not being a Profit and Loss account or similar account, are not taxable to shareholders upon distribution.

(3) Profits which stood to the credit of Profit and Loss account prior to 1st July, 1914, and which have been utilised for the purpose of issuing bonus shares are not taxable to shareholders when so used.

(4) Where a company's profits have been taxed to the company as undistributed income, and are subsequently distributed a rebate of tax is allowable to

the shareholder of the amount of tax that the company paid on the sum distributed to the particular shareholder, or the proportion of such shareholder's own gross tax attributable to that distribution, whichever is the less.

(b) Beneficial interests in income (other than income from personal exertion—see definition above) derived under any will, settlement, deed or gift, or instrument of trust.

(c) Royalty or bonuses, and premiums fines or foregifts or consideration in the nature of premiums, fines or foregifts in connection with leasehold estates; and any payment received by a lessee upon assignment or transfer of a lease to another person, less the part (if any) which is attributable to the transfer of other assets than the lease, and less so much of any fine, premium or foregift or sum paid by the lessee upon previous acquisition of the lease by him as is attributable to the period of the original lease unexpired at the time of assignment or transfer.

This provision does not apply to the sale or assignment of a lease of mining property (other than coal mining) where the Commissioner is satisfied that the lease has been transferred by a bona fide prospector, or by a person, partnership, syndicate, or company who or which does not make a business of buying and selling mining properties, and who or which purchased the lease from a bona fide prospector, and worked the property in a proper and efficient manner.

(d) 5 per cent. on the capital value of property owned and used or used rent free by the taxpayer for the purpose of residence or enjoyment.

This does not apply to a residence occupied by an employee in connection with his employment. In such a case the employee is taxable on the annual value to him (which may not necessarily be 5 per cent. on the capital value) of the residence as income from personal exertion.

(e) 5 per cent. on the capital value of a retiring allowance or gratuity paid in a lump sum.

(f) A cash prize in a lottery.

In connection with the foregoing, two difficulties arise. The first is—what is meant by the word "income" in the definitions of income from personal exertion and income from property?" And the second—what constitutes a "business"

within the meaning of that word in the definition of income from personal exertion?

Broadly, income is everything that comes in, but there are certain exceptions to this which have been laid down by the Courts from time to time. Except where the Act specifically classes certain items as income the word contemplates receipts, which, in their nature, are probably recurring. For example, gifts, legacies, and repayment of loans are not income. The distinction between a gift and a gratuity granted to an employee in relation to his employment is sometimes difficult to determine. If a so-called gift can be shown to have been made really by way of recognition for services rendered, though the payment may not be obligatory or in any way covered by the contract of employment, it is income.

Amounts, such as rent or interest, which may have accrued due, but which may never be received, are not income—they have not "come in." But it has been held that where the Profit and Loss account of a business is made up from year to year, taking credit for all sales made, irrespective of whether at the balance date payment therefor has been received, the credits shown in such Profit and Loss account are income. This, too, is evidently contemplated by the Act, for it provides for deduction on account of Bad Debts. Obviously Bad Debts would not be deductible if profits had not been taken credit for prior to receipt of payment.

Income is deemed to have been derived, though it is not actually paid over to the taxpayer, but is re-invested, accumulated, capitalised, carried to any reserve, sinking or insurance fund, however designated or otherwise dealt with on his behalf or as he directs. Items so treated have in effect "come in" and are rightly subject to tax.

With regard to the question as to whether income arises from a business, it is necessary to ascertain in any specific case whether a business is actually being carried on, and this is frequently a matter of no little difficulty. "Business" implies continuity of transactions entered into with the object of the acquisition of gain. Thus, if a person sold his residence at a profit, the proceeds would be Capital and not Income. On the other hand, a company or syndicate might be formed for the specific object of carrying out one business transaction, and in that case the proceeds would be profit of a business and subject to tax. A professional man who invested his savings in shares and sold a parcel of those shares, would not derive from such sale profits of a business. He might, however, effect a number of purchases and sales of shares, in which case he would be carrying on a business.

He might even effect one single transaction with the intent that it should be the first of several transactions, and that transaction might be the first transaction of an actual business, and consequently be taxable.

Then certain profits may arise from a pastime which are not business profits. In the New South Wales case of R. C. Allen, it was admitted that profits made in racing were profits of a business, but the Court upheld the contention that bets won by the appellant on his own and other persons' horses were free of tax, not being proceeds of Allen's business.

Stock Valuation.—In determining the amount of net income, another factor which has to be taken into consideration is the value of stock-in-trade on hand at the beginning and end of the year. The Department accepts stock valued at cost or market value, whichever is the less, except in the case of live stock, which is specifically dealt with by regulation. This regulation provides a basis of valuation for live stock, which is as nearly as possible actual cost.

The department has followed the usual commercial practice by allowing stock-in-trade to be valued at cost or market price, whichever is the lower. On a falling market no business should include its stocks at more than the cost of their replacement. The term "market value" must therefore have relation to the particular class of business being considered. In a retail concern it will ordinarily mean the cost of purchasing the same class of goods from a warehouse. In an importing concern it will refer to the amount to be paid for the goods overseas, plus freight, duty and landing charges.

Where live stock has been bought and kept separate and apart from the general flock or herd, it is valued, so long as it is held, at actual cost, but apart from this the value per head of the stock on hand at the end of the year is arrived at by taking the stock on hand at the beginning of the year at its actual cost, if known, and if not known, at the average cost arrived at for the previous period in the same manner as that now being explained. The purchases of the year (other than those kept apart, to which reference has already been made) are to be taken at actual cost, and the natural increase of the year at prescribed fair average values set out below. The numbers of stock at the beginning of the year, the purchases (other than those kept apart) and the natural increase, and the respective values are added. The sum of the numbers is divided into the sum of the values, and the quotient represents the average cost per head, which is applied to the number of stock actually on hand at the end of the period.

EXAMPLE:—

Stock on hand at 1/7/1921 ..	10,000	at cost of 12/ per head	£6,000
Purchases during year ending 30/6/1922	5,000	at cost £1 per head	5,000
Natural Increase	7,000	at fair average value 10/ (N.S.W.)	3,500
	22,000		£14,500

22,000 head at £14,500 = £.659 per head. The number on hand at the end of the year is, say, 12,000, which, at £.659 per head = £7,908. This value of £7,908 is credited as the value of stock on hand at 30/6/1922, for the purpose of arriving at the profits for the year ending on that date, and is debited on 1/7/1922 for the purpose of arriving at the profit of the year ending 30/6/1923, a fresh average cost arrived at in the same manner being applied to whatever stock is on hand at 30/6/1923, and so on from year to year.

In effect, this provision assumes that the stock on hand at the end of the year consists proportionately of (a) stock on hand at the beginning of the period, (b) purchases, and (c) natural increase. This assumption does not always work out equitably, though in the average case it is probably as fair as any other invariable rule could be. The fair average values prescribed for application to natural increase are as follow:—

FAIR AVERAGE VALUE OF LIVE STOCK (OTHER THAN STUD STOCK).

	Sheep. £ s. d.	Cattle. £ s. d.	Horses. £ s. d.	Pigs. £ s. d.
New South Wales	0 10 0	6 0 0	8 0 0	1 0 0
Victoria	0 12 6	6 0 0	15 0 0	2 10 0
Queensland	0 9 0	3 0 0	4 0 0	0 15 0
South Australia ..	0 10 0	5 0 0	7 0 0	2 0 0
Tasmania	0 10 0	3 0 0	20 0 0	0 15 0
Northern Territory	0 12 6	2 0 0	5 0 0	
Western Australia	0 5 0	1 15 0	East Kimberley	
,,	0 5 0	2 5 0	West Kimberley	
,,	0 7 0	2 10 0	N.W. Division, North of Tropic of Capricorn	
,,	0 9 0	3 10 0	N.W. Division, South of Tropic of Capricorn	
,,	0 12 0	4 10 0	S.W. Division	
,,	0 7 0	2 10 0	Eucla & Central Division	
,,	0 5 0	1 15 0	Eastern Division	

Place of Derivation of Income.—The Act sets out to tax income derived directly or indirectly by every taxpayer from sources within Australia. The question of the place of derivation is a very vexed one.

As regards salaries, the position may arise that an employee of an English company is sent out to Australia to

undertake certain work incidental to the company's English business, the company remitting the salary from time to time. At first sight it might seem that, as the agreement is entered into in England, payments come from England, and the expense is incurred to produce English income to the employer, the employee's salary is derived from a source outside Australia. However, this is not so, the source of the income being the employment, which is within the Commonwealth. Such income may always be taken to be derived where the work is done. If a person remunerated by salary, performs his duties in Australia during part of the year and abroad during the balance of the year, the total salary requires apportionment on the basis of time, the Australian portion only being taxable here.

The most common question under this heading is that of the place of derivation of profits earned by a business trading both in and outside Australia, where buying, or buying and manufacture, take place in one country, and selling in another, or where buying is effected in one place and manufacture and selling in another.

Many English decisions have been given as to whether trade is, under different circumstances, exercised in the United Kingdom. Many of these decisions are of little value in considering the Commonwealth Income Tax, because of the difference in construction between the two Acts. There are a few decisions on Australian Acts, but while they are some guide they do not go far enough to make the position clear.

The rules at present laid down by the Department may be summarised as follows:—

(1) As regards imports:—

(a) If contract of sale, delivery of and payment for, the goods, or any two of these take place outside Australia, nothing is taxable.

(b) Where two of these three factors take place in Australia the invoice price passed by the Customs Department (which is in normal times the wholesale price abroad) is, for the purpose of Federal Income Tax, regarded as the purchase price. The excess of the sale price over this "purchase price" plus Australian expenses, represents the Australian profit. The Australian selling agent or branch office is required to pay the tax in this case on behalf of the absentee principal.

(2) As regards exports:—

(a) Where the goods are sold before export (otherwise than by an agent outside Australia) the whole profit is taxable in Australia.

(b) Where the contract of sale is made by an agent abroad on his own authority, the profit is considered to arise according to the extent of the process carried out in the respective countries. To determine this the rule has been laid down that the total profit shall be apportioned on the basis of the expenses (excluding sea freight, marine insurance and exchange) incurred in and out of Australia respectively.

The question of whether these rules would hold before a Court has not so far been tested.

Exemptions.—The following is a summary of exemptions from Federal Income Tax:—

(a) The revenue of a municipal corporation or other local governing body or of a public authority;

(b) The income of a society registered under a Friendly Societies Act of the Commonwealth or a State and not carried on for pecuniary profit;

(c) The income of a trade union or of an association of employers or employees registered under any Act of the Commonwealth or a State relating to the settlement of industrial disputes;

(d) The income of a religious, scientific, charitable, or public educational institution;

(e) The income derived from the bonds, debentures, stock, or other securities of the Commonwealth issued for the purpose of Commonwealth War Loans the interest on which is declared by the prospectus to be free from Commonwealth Income Tax—that is, the 4½ per cent. Loans, which were the first, second, third, fourth, fifth, and portion of the sixth Commonwealth War Loans.

If a company, which has derived income from exempted Commonwealth War Loan, pays any portion of that income in dividends to its shareholders, the exemption extends to the proportion of the dividend which has been paid out of such income.

Though the legal position appears a little uncertain, the Commonwealth does not attempt to tax interest derived from State Government loans. Where, however, such interest is derived by a company, and by it distributed to shareholders as part of the dividend, the exemption does not carry through to the shareholders.

(f) The income of a provident, benefit, or superannuation fund established for the benefit of the employees in any business or class of business and the income of a fund established by any will or instrument of trust for public charitable purposes if the Commissioner is satisfied that the fund is being applied by the trustees to public charitable purposes;

(g) The salary of the Governor-General and the salaries of the Governors of the States;

(h) The official salaries of foreign consuls and the trade commissioners of any part of the British Dominions;

(i) Pensions paid under the War Pensions Act, 1914-16;

(j) The income of any society or association not carried on for the purposes of the profit or gain to the individual members thereof, established for the purpose of promoting the development of the agricultural, pastoral, horticultural, viticultural, stockraising, manufacturing, or industrial resources of Australia;

(k) The revenue of social, sports and other clubs derived from annual subscriptions of the members. (These subscriptions are not "income"—Bohemians Club v. Acting-Commissioner of Taxation (1918) 24 C.L.R. 334).

(l) Rebates received by members of a co-operative company based on their purchases from that company where the company is one which usually sells goods only to its own members.

(m) Income derived from personal exertion by any person who was on active service outside Australia during the Great War with any of the naval or military forces of the Empire or of any Ally of Great Britain, from the date of his enlistment in or appointment to those forces, until the date of his discharge or the termination of his appointment.

(n) Dividends from Companies:—

(1) To the extent to which they are paid out of profits earned by the company outside Australia;

(2) To the extent that they are paid out of income accumulated prior to 1st July, 1914, in an account other than a Profit and Loss account or similar account;

(3) Where the Commissioner is satisfied that the dividend has been appropriated out of an amount standing to the credit of Profit and Loss account prior to 1/7/1914, for the purpose of being credited to shareholders and retained to pay for an increase in value or number of shares issued to the shareholders.

(o) Income of any person from the 1st July in any year to the date of his death prior to the following 30th June in a case where his estate is liable to Federal Estate duty.

Deductions.—The deductions allowable are set out below, and are amplified where amplification appears necessary:—

(a) All losses and outgoings, not being in the nature of losses and outgoings of Capital, including commission, discount, travelling expenses, interest, and expenses actually incurred in Australia in gaining or producing assessable income.

Assessable income is the gross income which is not exempt from taxation. The obvious intention of the foregoing was that the losses and outgoings referred to, in order to be deductible, should be actually incurred in Australia in gaining or producing the assessable income, but the judgment of the High Court in the case of the Alliance Assurance Co., Ltd., v. Federal Commissioner of Taxation, delivered on 25th August, 1921, lays down that the words "actually incurred in Australia in gaining or producing the assessable income" relates to "expenses" and do not also refer to "all losses and outgoings." The effect of this is that all losses and outgoings, not being in the nature of losses and outgoings of Capital, are deductible, though they may not have been incurred in Australia, and may not have been incurred in gaining or producing assessable income. Thus, to take an extreme case, a company with a branch in London could incur expenses there in the production of English income and yet the whole of those expenses would be

deductible in the Federal assessment. It is highly probable that this anomaly will at an early date be rectified by an amendment of the Act.

Prior to the judgment referred to, one of the greatest difficulties in the administration of the Income Tax Assessment Act was the determination of the question whether in spectific cases losses and outgoings were actually incurred in the production of income. In view of the decision, however, this difficulty does not for the moment arise. It is still necessary to determine whether the losses and outgoings referred to are "in the nature of losses and outgoings of Capital." Capital expenditure may be described as expenditure that is incurred once and for all, and does not recur from year to year. Generally Capital expenditure creates an asset which remains in the place of the money spent, whereas revenue expenditure is absorbed in the conduct of a business, and leaves no asset behind.

The following are a few instances of losses of Capital, which have been held by the Courts not to be deductible:—

(1) A professional man purchased shares in a company, and sold them at a loss; his loss was a loss of Capital.

(2) Railway authorities, at the request and expense of a taxpayer, erected a railway siding near the taxpayer's property; it was held that this was an expenditure of Capital.

(3) Cost of removal and re-erection of machinery was held to be a Capital expenditure, and not deductible.

(4) Deduction was claimed in respect of partial exhaustion, through working, of a mine. It was decided that this was not allowable being a Capital loss.

(5) Deduction was claimed by a railway company for expenditure upon the improvement of the permanent way and for the extra weight in re-laying portion of the line with steel in place of iron rails. These items are held to be Capital expenditure and not deductible.

(b) All rates and taxes (except Federal Income Tax) actually paid in Australia during the year in which the income was received.

The provision covers deduction of War-time Profits Tax, but in regard to that the deduction is the amount payable in respect of the income—not the amount paid during

the year. In practice this deduction is generally made as a set-off against the War-time Profits Tax itself.

Rates and taxes are deductible whether or not they relate to property from which income is produced.

Refunds of any Australian taxes (other than Federal Income Tax) are taxable in the year of receipt.

(c) Every premium or sum (not exceeding £50) paid by a taxpayer on the insurance effected in Australia on the life of himself, his wife or his children, or for a deferred annuity or other like provision effected in Australia for his wife or children, or in respect of any fidelity guarantee or bond, which he is required to provide in the exercise of his business.

(d) Expenditure for repairs to or on that part of any property occupied for the production of income, or for residence (where 5 per cent. on the Capital value or the annual value of such residence is subject to Income Tax) and for the repair of machinery, implements, utensils, rolling stock and articles employed for the purpose of producing income.

A distinction must be drawn between "repairs" and "replacements," "alterations," or "improvements." If an item of plant is replaced by a new one any expenditure in connection therewith is Capital expenditure, and not a repair. Such expenditure is intended to be covered by the provision for depreciation—see (e) below. Alterations and improvements or additions to assets are also Capital expenditure and cannot be deducted under this provision.

(e) Such sum as the Commissioner thinks reasonable as representing the diminished value per centum by wear and tear (which may not be made good by repairs) during the year in which the income was derived, of any machinery, implements, utensils, rolling stock and articles used by the taxpayer for the purpose of producing income.

It will be observed that this provision for deduction on account of depreciation relates only to "wear and tear." In fixing the rates of depreciation, therefore, the Commissioner takes no cognisance of obsolescence, nor of deterioration of plant through its remaining idle. The assets in respect of which deduction may be allowed are also limited, so that the provision does not apply to such items as buildings, fences, earthen tanks, etc.

Rates of depreciation have been fixed by the Commissioner in regard to most classes of plant, and are available in pamphlet form. These rates may be varied if the special circumstances of a particular business justify the alteration. The rates laid down are applied to the value of the plant on hand at the beginning of the year of income. That value may be arrived at by taking the original cost and writing it down from year to year at the rate prescribed by the Commissioner.

Expenditure upon food and rent of quarters provided for an employee (other than a member of the taxpayer's own family under 15 years of age) who is employed exclusively in the business yielding an income to the taxpayer. Where the employer is being taxed upon 5 per cent. of the Capital value of his residence and provides quarters for employees in such residence, the proportion of the 5 per cent. of the Capital value applicable to the quarters occupied by the employees is deductible.

(g) Payments not exceeding £50 by a person who is in receipt of salary, wages, allowances, stipends, or annuities, to superannuation, sustentation, widows or orphans funds established in Australia, or to any society registered under a Friendly Societies Act in the Commonwealth.

(h) Payments made or gifts purchased and forthwith presented during the Great War (the war ended on 31/8/1921), to any patriotic fund, established in the Empire, or any Allied country for any purpose connected with the War.

(i) Contributions made to the Repatriation Department or to any public authority for the purpose of being handed over to that Department. These contributions may be either in cash or kind, but if in kind, the value must be verified to the satisfaction of the Commissioner.

(j) Gifts exceeding £5 each to public charitable institutions in Australia. Each separate gift must exceed £5; a number of smaller gifts to the same institution not falling within the provision, notwithstanding that the aggregate may far exceed £5.

The institution here referred to must be both public and charitable. Charitable means "affording relief to persons in necessitous or helpless circumstances, and in most instances, at all events, if required, gratuitously." A Technical College—an educational institution—was held by the

High Court not to be a public charitable institution. (Swinburne v. Commissioner of Taxation).

(k) The full amount of calls paid during the year of income on shares in a mining company or syndicate carrying on operations in Australia, and 5 per cent. on the amount of calls on shares of other companies operating in the Commonwealth.

(l) Sums set aside or paid by an employer of labour, or by any other person, as or to a fund to provide individual personal benefits, pensions, or retiring allowance to employees of any business or class of business. In order that this deduction may be allowable the Commissioner must be satisfied that the right of the employees to receive the benefits has been fully secured, or that actual payment to them has been made.

(m) £30 in respect of each child under the age of sixteen years at the beginning of the year of income, who is wholly maintained by any resident taxpayer.

Where a child is born during the year of income the Commissioner allows a proportionate deduction for the part of the year during which the child was maintained. On the other hand the full deduction is allowable in the year in which the child attains the age of sixteen years, though he may be over that age for most of the period. This provision relates to any child maintained, and is not restricted to the taxpayer's own children.

(n) Payments by way of commission for collecting income.

(o) Interest paid on mortgage of property, in respect of which the taxpayer is assessed on 5 per cent. of the Capital value or on the annual rental value to him. The Commissioner may refuse to allow this deduction if he is not satisfied that the mortgage was entered into in good faith.

(p) The annual sum necessary to recoup expenditure, made under covenant with a lessor, on improvements on land by a lessee who has no tenant rights in the improvements. The annual deduction is ascertained by dividing the total expenditure by the number of years in the unexpired period of the lease at the date the improvements were effected.

(q) The annual sum necessary to recoup the amount of any fine, premium or foregift paid by a lessee for

a lease or a renewal of a lease or an amount for the assignment or transfer of a lease of premises or machinery used for the production of income. This deduction is also arrived at by dividing the amount paid by the number of years in the unexpired period of the lease at the date of payment.

(r) Bad Debts proved to be such to the satisfaction of the Commissioner, provided that the taxpayer has in the year of income or any previous period included those debts as income in his Federal Income Tax return. The effect of the latter part of the foregoing is that the original credit must have been taken in since the commencement of Federal Income Tax on 1/7/1914, and that the debt must have arisen as a trade debt as distinct from a Capital item. Capital items would not of course have been included as income in the Federal return.

The deductions allowable in respect of—

(a) Life assurance premiums and fidelity guarantee.

(b) Contributions by employees to superannuation funds and friendly societies.

(c) Gifts to patriotic funds, Repatriation and public charitable institutions.

(d) Maintenance of children (£30 each)

are to be taken from the class of income—personal exertion or property—whichever is the greater; all other deductions are taken from the class of income to which they relate.

Where, however, that class of income is exceeded by the amount of deductions, the excess is deductible from the other class. Where a taxpayer, either alone or in partnership, carries on more than one business, in one or more of which there is a loss, or where he has a business which shows a loss, and at the same time has other earnings from personal exertion, the losses are deductible from the profits or earnings. Where a taxpayer has income from property any excess of losses over profits in connection with his personal exertion undertakings is deductible from the property income. Thus a taxpayer is never in any year assessed on more than the net income which he derives from all Australian sources.

Statutory Deduction.—Except in the case of companies and absentees, a special deduction is allowable to all taxpayers whose income does not exceed a certain sum.

Where a person is not married, and has no dependants (a dependant is a relative towards whose maintenance the taxpayer has contributed at least £26 during the year), the deduction is £104 less £1 for every £3 by which the net income exceeds £104.

Where a taxpayer is married or has a dependant the deduction is £156 less £1 for every £3 by which the net income exceeds £156.

It will be seen that where the net income amounts to £520 or more in the case of a person who is single and is without a dependant, or to £624 or more in the case of a person who is married or has a dependant, this statutory deduction does not apply.

Where the taxpayer's income consists partly of income from personal exertion and partly of income from property, the statutory deduction is made in the first place from income from property, but where it exceeds the net income from that source the excess is taken from income from personal exertion.

Companies and Shareholders.—In order to deal satisfactorily with this heading it will be necessary to repeat some of the matter appearing elsewhere.

Companies pay tax on income which is not distributed to shareholders, while the shareholders are assessed on distributions of income made to them by companies. It is obvious that the distribution of the profits of a Company for any year cannot generally be completely made within that period, for the results of the year's transactions have first to be ascertained. In practice the distribution is recognised as a deduction if made within a reasonable time after the close of the year, and the presentation of the accounts to the annual meeting of the company. The shareholder is taxed on his dividend—not in the year in which the company earned the profit from which it was paid—but in the year of actual receipt by the shareholder.

Where a company's profits are not distributed within a reasonable time, and are, therefore, taxed to the company as undistributed income, but are subsequently distributed, the shareholders are taxable on such distribution with a rebate of tax representing the amount of tax previously paid by the company on the amount distributed, or the proportion of the gross tax of the recipient attributable to the amount referred to, whichever is the less.

Where a company derives part of its income from abroad or from 4½ per cent. Commonwealth War Loan and part from a taxable Australian source, dividends are, in the absence of evidence to the contrary, regarded as paid proportionately from the whole of the profits of the year, in which case the company receives deduction of only part of the dividend as against its assessable income and the shareholders are taxed on the same part. For example, a company has a total income of £30,000 consisting of 4½ per cent. War Loan interest £5,000, income derived from abroad £10,000, and income derived in Australia (apart from War Loan) £15,000. If it pays a dividend of £20,000, 15,000/-30,000ths. of this dividend = £10,000, is deductible by the company and is taxable to the shareholders.

A company may, however, pay a dividend specifically out of any of its profits, and if it satisfies the Commissioner he will assess in accordance with the actual facts. For example, a company may choose to distribute profits standing in Reserve prior to 1/7/1914 (which, in the hands of the shareholders, are exempt from tax). In such a case, if the Commissioner is satisfied as to the facts, he will not tax the shareholders on the distribution. With the following two exceptions, any income derived by a company, which, in the hands of the company would not be subject to Federal Income Tax, is, when distributed to shareholders, also exempt.

The two exceptions are—

(a) Interest on State Government Loans.

(b) Dividends received by a company from another Australian company, which derives its income from a source beyond Australia.

While the Commonwealth does not at present seek to tax interest on State Loans, the Commissioner holds that upon distribution the shareholders do not receive interest from State Loans; what they are paid are dividends, which, under the Act, is income subject to tax.

In connection with (b), the Act provides that dividends received by shareholders are income subject to tax, with the proviso that where the paying company derives income from sources both in and outside Australia, the dividend shall be regarded as being paid proportionately out of those profits, the proportion attributable to the ex-Australian profit being exempt. Where Company "B" receives a dividend from Company "A" (an Australian company) that dividend is derived by Company "B" from a source within Australia, notwithstanding that the profits of Company "A" may have been derived by it either wholly or partly outside the Com-

monwealth. Therefore, while Company "B" itself would not be taxable on the ex-Australian proportion, that Company's shareholders are taxable in full when distribution to them is made.

As already mentioned, the tax on profits of companies which are distributed to shareholders, and on interest paid to debenture holders and depositors is assessable to the recipients. This is practicable with resident shareholders, but with absentees it is a very difficult matter, and in some cases a legal impossibility, to collect the tax. Therefore, companies, in addition to paying tax on undistributed income, are also chargeable with tax at a lower rate on

(a) So much of the income (other than exempt income) of the company as is distributed to absentee shareholders, and

(b) Interest paid or credited to absentees upon money raised by debentures and used in Australia, or on deposits at interest with the company in Australia.

In certain cases, notably where an absentee has an Australian agent who receives his dividends, etc., the Department is able to tax the absentee through his agent. Where this is done, in the personal assessment a deduction is allowable from the gross tax, of the amount of tax paid by the company on dividends or interest received by the absentee.

Where a company pays tax in respect of distributions to absentees, it is empowered by the Act to deduct that tax from dividends or interest payable to such absentees.

With respect to debenture or stock payable to bearer, it was found that as the companies could not supply lists, there was no check upon the debenture-holders or stockholders to ensure that interest and dividends were not omitted from their returns. It was therefore enacted that the companies, in such cases, should pay tax upon so much of the income of the company (other than exempt income) as was distributed to bearer debenture-holders or stock-holders, as if the total amount so distributed were the income of an individual. Thus the rate of tax chargeable, being based upon the total amount of interest or dividend paid to bearer debenture-holders or stock-holders is generally a very high one, the provision thus becoming a penalty and causing many companies to register their debentures and stock, in order to avoid this imposition.

A company is authorised to deduct from the amount of interest or dividend so payable, a sum sufficient to pay the tax.

If the Commissioner is satisfied that the holder of debentures or stock payable to bearer is a person not liable to make a return the amount of tax paid by the company in respect of the interest or dividend payable to that person may be refunded to him.

Where a bearer, debenture-holder or stock-holder includes the interest or dividend in his own return and pays tax thereon, he is entitled to a deduction from his tax of the amount paid by the company in respect of his interest or dividend.

If a company in any year has not, in the opinion of the Commissioner, distributed to its shareholders a reasonable proportion of its income, the whole of its taxable income is deemed to have been distributed to the shareholders in proportion to their interest in the paid-up Capital of the company, provided that the Commissioner is satisfied that the total tax payable on it in the hands of the shareholders is greater than the tax the company would pay.

This is a most important power given to the Commissioner. It chiefly operates in the case of companies with few shareholders, who abstain from drawing large dividends in order to build up the business of the company. In some of these cases, distribution of the profits of the company would involve the shareholders in tax at a rate exceeding 8/- in the £, whereas the company rate is only 2/8. The Section, in such cases, empowers the Commissioner to collect the tax from the shareholders at the higher rate, though it will be noticed that the Commissioner does not require the actual distribution of the income; he merely taxes it as if it had been distributed. In the event of subsequent actual distribution, no further tax would be payable.

Visiting Ships.—Shipping companies whose principal place of business is outside Australia are taxed on 10 per cent. of outward freights and passage money, instead of an endeavour being made to ascertain the actual income earned in the Commonwealth. Where a ship carries goods or passengers from the Commonwealth and the owner has no regular agent here, the master must pay the tax before he can be granted a clearance by the Customs authorities.

Fire and Marine Insurance Companies.—Until recently these were taxed in the same way as other companies, that is, on their net income derived from sources within Australia, but one important deduction was not allowed. This was the amount of premiums on re-insurances effected with companies abroad, the Commissioner claiming that these premiums were not losses and outgoings incurred in Aus-

tralia in the production of the income of the Australian companies. The High Court in the case of the Alliance Assurance Co., Ltd., v. Commissioner of Taxation, however, decided that the words of the Act did not intend this to be so, and that the Company need only show that the re-insurance premiums were losses and outgoings of the business. The deduction was accordingly allowed by the Court.

Life Assurance Companies.—These companies are entitled to deduct from their total income the amount of life premiums received. In practice, therefore, they are free of tax because the working expenses always exceed the income other than premiums.

Mining Companies.—There are special provisions in the Act designed to foster the mining industry. By the original Act, mining companies (other than coal-mining) were allowed a deduction which should represent the fair proportion of the total expenditure on plant and development, to be recouped out of the profits of the particular year. The excess of the total expenditure on plant and development over the total profits to date was divided by the number of years estimated to be the remaining life of the mine, the result being allowed as a deduction. Thus, if the estimate of life be correct, the provision enables the whole cost of plant and development to be recouped out of profits without the amount so used for recoupment being taxed to the company. It will be noticed, however, that this relief does not extend to the shareholders when they receive dividends, these being taxable in the usual way, even though the shareholders may never have their Capital returned.

By the 1918 amendment, a further sub-section was enacted, intended chiefly to give relief to mining companies whose profits had already exceeded the expenditure on plant and development, and which, therefore, could not benefit under the original section. The new provision allows, as an alternative to the old, a deduction of the amount of income of the year expended on development or appropriated for new plant and development. Where an amount so appropriated is not expended by the end of the succeeding year it then becomes taxable. Plant, the cost of which is here deductible in full, does not carry the usual depreciation allowance.

Co-operative Companies.—Income of a co-operative company or society includes all sums received from members in payment for commodities supplied or animals or land sold to them, or received for commodities, animals or land sold by the company, whether on its own account or on account of its members.

It is customary with co-operative companies to pay shareholder-suppliers a certain price upon delivery of goods to the company. Where the shareholders are purchasers from the company they pay the company a certain price at the time of purchase. In both these cases, at the end of the financial period the company distributes the whole or portion of its surplus to its shareholders—not in proportion to their shareholdings, but on the basis of the value of goods supplied to the company or purchased from it. These rebates are deductible in the company's assessment.

Where such a rebate is received by a member of a co-operative company based on his purchases from that company—the company being one which usually sells goods only to its own members—the recipient is not taxable on the rebate. It will be observed that this exemption does not apply to rebates distributed to members where the rebates are based on the members' **sales** to or through the company.

Relief on Account of Double Taxation.—It does not follow that because income is subject to Commonwealth and State Income Taxes in Australia it is not also taxed elsewhere. Owing to the basis of the British Act being different from the Australian Statutes, it frequently happens that income is taxable both in the United Kingdom and Australia.

Reciprocal provisions have now been inserted in the Commonwealth and British Acts to overcome this serious inequity.

The effect of these provisions is as follows:—

(1) Where the Commonwealth rate of tax is greater than the British rate, the Commonwealth allows a rebate of one-half the British tax, and the United Kingdom allows a rebate of the other half.

(2) Where the Commonwealth rate is not greater than the British rate, but not less than one-half thereof, the rate of rebate allowed by the Commonwealth is the excess of the Commonwealth rate over one-half of the British rate, while the United Kingdom allows a rebate of one-half of the British rate.

Where both Federal and State Income Taxes are charged on income which also pays tax in the United Kingdom, the sum of the Commonwealth and State rates instead of the Commonwealth rate alone is compared with the British rate in the manner indicated in (1) and (2), and the

Commonwealth rebate is reduced to that proportion of the rates stated above which is represented by the Commonwealth rate as compared with the aggregate of the Commonwealth and State rates. For example, under (1) the Australian rebate would be one-half the British rate, that is, one-half of 6/- = 3/-. If the Commonwealth rate were, say, 7/-, and the State rate 1/-, the net rebate allowable would be 7/8ths of 3/-.

The net effect of this provision is that a taxpayer now actually pays tax at approximately the aggregate of the Commonwealth and State rates or the aggregate of the British and State rates, whichever is the greater, so that double taxation between the Commonwealth and the United Kingdom is avoided.

The cases in which only the United Kingdom and the Commonwealth rates, and not the State rate, are involved, are chiefly those in which the income consists of dividends. Dividends are not subject to State Income Tax.

Taxation of Non-residents where Loss of Tax is Suspected.—Where a non-resident person carries on business with a resident of Australia, and it appears to the Commissioner that, owing to the close connection between them, and to the substantial control exercised by the non-resident over the resident person, the course of business between these persons can be so arranged and is so arranged, that the business done by the resident person in pursuance of his connection with the non-resident person produces to the resident person either no taxable income or less than the ordinary taxable income which might be expected to arise from that business, the non-resident person is chargeable to tax in the name of the resident person as if the resident were an agent of the non-resident person.

Where it appears to the Commissioner that the true amount of the taxable income of any non-resident person so chargeable cannot be readily ascertained, the Commissioner may assess the non-resident person on such percentage as he thinks reasonable on the turnover of the business done.

Cases have arisen in which two companies of substantially the same ownership, one operating outside Australia and the other within the Commonwealth, have so arranged their business that the foreign company sells to the Australian company at a price which makes it impossible for the Australian company to show a fair margin of profit, the foreign company of course making so much more. In these instances, the foreign company, having derived its income outside Australia, is free of Federal Income Tax, while the local company has made little or no income in Australia,

so that between them, although they may be carrying on a profitable Australian business, the Commonwealth fails to secure a reasonable amount of tax.

Rates of Tax.—The principle underlying the rates of Federal Income Tax is that except in the case of companies and lottery prizes the rate of tax per £ on each and every £ of the taxable amount shall increase as the income of the taxpayer increases. For example, under the rates applicable to income from personal exertion for the first year of tax, if the taxable income is £1, the rate of tax thereon is 33/800d. in the £; if the taxable income is £2, the rate of tax on each of these £2 is 36/800d. in the £; if the taxable income is £100, the rate of tax on each £ is 3300/800d. in the £. This gradual increase goes on until the total taxable income amounts to £7,600, where the maximum rate is reached. This maximum rate then applies to all income in excess of £7,600.

As regards income from property, the same principle applies up to where the taxable income is £546, though the increase in rate per £ is greater than under the personal exertion scale.

From £546 up to £2,000 the increase in rate of tax does not progress in a "straight line," but in what the Act describes as "a curve of the second degree," which, however, is very slightly different from the straight line. From £2,000 to £6,500 "a curve of the third degree" applies. This curve, which is a little different again from the curve of the second degree, is still very nearly a straight line. From £6,500 onward the maximum rate applies, which maximum is the same as the maximum rate on income from personal exertion where that income exceeds £7,600.

Where part of a taxpayer's income is derived from personal exertion and part from property, the rate of tax applicable to the portion which arises from personal exertion is the rate which would apply if the total income from both sources were all derived from personal exertion; and the rate of tax applicable to the income from property is the rate which would obtain if the total income from both sources were all derived from property. For example: Assume that a taxpayer's total income is £1,800, consisting of £1,000 from personal exertion and £800 from property. The present personal exertion rate of tax on an income of £1,800 is 16.6359d. in the £; the property rate for a similar income is 29.7297d. in the £. Therefore (£1,000 x 16.6359) plus (£800 x 29.7297) gives in pence the total tax on this composite income. It will be found that in every case the tax so arrived at is greater than the tax on the same total

income all at personal exertion rate and lower than the tax on the total income all at property rate.

The ascertainment of the amount of tax from the Act itself, particularly where there is an income from property exceeding £546, is a difficult matter, but the Commissioner issues a Ready Reckoner, from which the information is readily obtainable.

For the first year of the tax (based on income of the year ended 30th June, 1915) the rates were as follows: [The increases and variations made from time to time since then are set out in the schedule at the end of this chapter.]

Income from Personal Exertion.—For so much of the whole taxable income as does not exceed £7,600, the average rate of tax per £ is 33/800 of one penny where the taxable income is £1, and increases uniformly with each increase of £1 of taxable income by 3/800ths of one penny. The rate of tax may be calculated from the following formula:—

R = average rate of tax in pence.
I = taxable income in £.

$$R = \left(3 + \frac{3}{800} I\right) \text{ pence.}$$

For every £ of taxable income in excess of £7,600 the rate of tax is 60d.

Income from Property.—For such part of the taxable income as does not exceed £546, the average rate of tax per £ is that given by the following formula:—

R = average rate of tax in pence.
I = taxable income in £.

$$R = \left(3 + \frac{I}{181.058}\right) \text{ pence.}$$

For such part of the taxable income as exceeds £546 but does not exceed £2,000 the additional tax for each additional pound of taxable income above £546 increases continuously with the increase of the taxable income in a curve of the second degree in such a manner that the increase of tax for one pound increase of taxable income is:—

11.713 pence for the pound sterling between £545/10/- and £546/10/-
12.768 pence for the pound sterling between £599/10/- and £600/10/-
14.672 pence for the pound sterling between £699/10/- and £700/10/-
16.512 pence for the pound sterling between £799/10/- and £800/10/-
18.288 pence for the pound sterling between £899/10/- and £900/10/-
20.000 pence for the pound sterling between £999/10/- and £1000/10/-
27.600 pence for the pound sterling between £1499/10/- and £1500/10/-
33.600 pence for the pound sterling between £1999/10/- and £2000/10/-

For such part of the taxable income as exceeds £2,000 but does not exceed £6,500, the additional tax for each additional pound of taxable income above £2,000 increases continuously with the increase of the taxable income in a curve of the third degree in such a manner that the increase of tax for one pound increase of taxable income is:—

33.500	pence for the pound sterling	between	£1999/10/-	and	£2000/10/-
40.000	pence for the pound sterling	between	£2499/10/-	and	£2500/10/-
45.300	pence for the pound sterling	between	£2999/10/-	and	£3000/10/-
49.600	pence for the pound sterling	between	£3499/10/-	and	£3500/10/-
53.000	pence for the pound sterling	between	£3999/10/-	and	£4000/10/-
55.600	pence for the pound sterling	between	£4499/10/-	and	£4500/10/-
57.500	pence for the pound sterling	between	£4999/10/-	and	£5000/10/-
58.800	pence for the pound sterling	between	£5499/10/-	and	£5500/10/-
59,600	pence for the pound sterling	between	£5999/10/-	and	£6000/10/-
60·000	pence for the pound sterling	between	£6499/10/-	and	£6500/10/-

For every pound sterling of taxable income in excess of £6,500 the rate of tax is 60d.

Income Partly from Personal Exertion and Partly from Property.—The method of ascertaining the tax on composite incomes is illustrated above.

Companies.—For every pound of taxable income of a company, which has not been distributed to the members or shareholders, the rate of tax is 2/8d. and 8d. in the £ on such of the assessable income of the company as is distributed to absentee members or debenture holders.

Rate of Tax on Income from Primary Production.—By an amendment of the Act in 1921, made at the instance chiefly of the pastoralists whose income from year to year probably fluctuates to a greater extent than that of persons in most other industries, a special method of ascertaining the rate of tax applicable to primary producers was provided. "Primary producers" here referred to means persons engaged in the production resulting directly from cultivation of land or maintenance of animals or poultry, and includes persons who, as well as cultivating land or maintaining animals or poultry, manufacture dairy produce, which is made principally from the raw material raised by them.

The tax is still charged on the actual amount of income of the year, but for the purpose of ascertaining the rate of tax to be applied to such income, the taxpayer's income derived from primary production is taken to be—

(a) For the year ending the thirtieth day of June, One thousand nine hundred and twenty-two, the average of the amounts of taxable income derived by the taxpayer during that and the preceding financial year from primary production;

(b) For the year ending the thirtieth day of June, One thousand nine hundred and twenty-three, the average of the amounts of taxable income derived by the taxpayer during that and the last two preceding financial years from primary production;

(c) For the year ending the thirtieth day of June, One thousand nine hundred and twenty-four, the average of the amounts of taxable income derived by the taxpayer during that and the last three preceding financial years from primary production; and

(d) For all subsequent financial years the average of the amounts of taxable income derived by the taxpayer during the year itself and the last four preceding financial years from primary production.

The average of the amounts of taxable income from primary production is arrived at by dividing by the number of years upon which the average is based the sum of the amounts of taxable income derived by the taxpayer from primary production during each of the those years, less the amount (if any) of losses on primary production during any of those years.

Where a primary producer has not been engaged in primary production for the number of consecutive years in respect of which the rate of Income Tax upon his income from primary production is required to be ascertained as set out above, the average is struck on the number of consecutive years during which the taxpayer has actually been engaged in primary production.

Examples.—

(1) Assessment on income of the year ending 30/6/1925, the taxpayer being engaged solely in primary production:—

	£
Income of year ending 30/6/1921	2000
Income of year ending 30/6/1922	1500
Income of year ending 30/6/1923	300
Income of year ending 30/6/1924	2600
Income of year ending 30/6/1925	1200
	5)7600
	£1520

The tax is charged on the actual income of £1,200 at the personal exertion rate applicable to £1,520.

(2) Assessment on income of the year ending 30/6/1925, the taxpayer being solely engaged in primary production:—

	£	£
Income of year ending 30/6/1921		2000
Income of year ending 30/6/1922		1500
Income of year ending 30/6/1923		300
Loss for year ending 30/6/1924	2600	
Income of year ending 30/6/1925		1200
	2600	5000
		2600
		5)2400
		£480

The tax is charged on the actual income of £1,200 at the personal exertion rate applicable to £480.

(3) Assessment on income of year ending 30/6/1925, the taxpayer being engaged solely in primary production:—

	£	£
Income of year ending 30/6/1921		2000
Loss for year ending 30/6/1922	1500	
Income of year ending 30/6/1923		300
Loss for year ending 30/6/1924	2600	
Income of year ending 30/6/1925		1200
	4100	3500
	3500	
Deficit	£600	

In this case the amount of income upon which the rate should be based is a minus quantity, although there is an actual income of £1,200 to be assessed. The tax, must, therefore, be nil.

(4) Assessment on income of year ending 30/6/1925, the taxpayer being engaged solely in primary production:—

	£	£
Income of the year ending 30/6/1921		2000
Income of year ending 30/6/1922		1500
Income of year ending 30/6/1923		300
Income of the year ending 30/6/1924		2600
Loss for the year ending 30/6/1925	1200	
	1200	6400
		1200
		5)5200
		£1040

The income upon which the rate should be based is £1,040, but as the actual income for the year is a minus quantity, the tax must be nil.

(5) Assessment on income of year ending 30/6/1925, the taxpayer being solely engaged in primary production, but having commenced that business only on 1/7/1922:—

	£
Income of year ending 30/6/1923	300
Income of year ending 30/6/1924	2600
Income of year ending 30/6/1925	1200
	3)4100
	£1367

The tax is charged on the actual income of £1,200 at the personal exertion rate applicable to £1,367.

(6) Assessment on income of year ending 30/6/1925, the taxpayer being engaged in primary production and also another business:—

	Primary Production. £	Primary Production. £	Other Business. £
Income of year ending 30/6/1921		200	2000
Income of year ending 30/6/1922		100	1500
Loss for year ending 30/6/1923	1000		
Income of year ending 30/6/1923			3000
Income of year ending 30/6/1924		300	1800
Income of year ending 30/5/1925		200	2500
	1000	800	
	800		
Deficit	£200		

As the income from primary production upon which the rate should be based is a minus quantity, there is no rate to apply to any of the income of either of the businesses, for the Act, as it stands at present, provides that the rate of tax ascertained on the basis of the primary production business shall be applied to the actual taxable income of the taxpayer, that is, the whole taxable income from all sources. Even if the primary production section showed a small excess of profits over losses the low rate of tax based on such small excess would be the rate applicable to the whole of the taxpayer's income, notwithstanding the large amount of his income from the separate business.

In view of these and other anomalies in this provision, it seems highly probable that the Act will be further amended before this Section of it comes into actual operation.

Partnerships and Trustees.—Generally, partnerships and trustees are not taxable, their income being assessed to the partners or beneficiaries according to their respective interests in the income.

In the case of a partnership formed since 13th September, 1915, a partner in which is free from tax on account of the statutory exemption, if it appear that such partner is merely a dummy, the Commissioner may assess the partnership on the dummy partner's share of the partnership income at the rate applicable to the total taxable income of the partnership.

Where, in a trust, a beneficiary is under legal disability or no one is presently beneficially entitled to the income, the trustee must pay tax on the income in question.

Winding up of Business.—The liquidator of a company must give notice of the liquidation to the Commissioner, and set aside such amount as the Commissioner requires to meet the tax. A resident agent conducting the business of an absentee principal is subject to similar obligations. Failure to give notice and make the required provision renders personally liable the liquidator or the agent, as the case may be.

Penalties.—Penalties are provided for failure to make returns, late lodgment of returns, omission of income from returns, claims in returns for non-allowable deductions, and for furnishing incorrect information. These penalties take the shape of additions to the tax, but, alternatively, the Commissioner may prosecute. For late payment of tax 10 per cent. additional tax is chargeable. The Commissioner has power to remit wholly or partly any penalty.

Recovery of Tax Due by Employees.—Where the Commissioner believes that it will be difficult to collect tax from an employee—for instance, one who works on a dozen different jobs in a year under twelve different names—he may require the employer to deduct the tax from the wages.

Death of Taxpayer.—With one exception no income escapes tax owing to the death of a taxpayer, his executors being liable to make returns and pay the tax found to be due. The exception is that where a taxpayer dies during a financial

year, the income derived between the beginning of that financial year and the date of death is free of tax if the estate is subject to Commonwealth Estate Duty.

Objections and Appeals.—A taxpayer who is dissatisfied with his assessment may, within thirty days after service of the notice of assessment, lodge with the Commissioner or Deputy Commissioner, an objection on the prescribed form, stating the grounds of his objection. The Commissioner considers this objection, and may either allow or disallow it, wholly or in part. The taxpayer is then advised of the Commissioner's decision, and if he is still dissatisfied he may serve the Commissioner with a written request to have the objection treated as an appeal. On a question either of law or of fact the appeal may be made to the High Court of Australia or the Supreme Court of a State, and on questions of fact only appeal may be made to the Board of Appeal. This right of appeal to the Board of Appeal was only created in 1921. Board or Boards to be constituted will consist of three members to be appointed by the Government.

Relief on Account of Hardship.—Where it is shown to the satisfaction of a Board consisting of the Commissioner of Taxation and two other members, that a taxpayer

(a) Has become bankrupt or insolvent, or

(b) Has suffered such a loss, or is in such circumstances, or, owing to the death of a person, who, if he had lived, would have paid tax, the dependants of that person are in such circumstances, that the exaction of the full amount of tax would entail serious hardship, the Board may release the taxpayer or his executor, as the case may be, either wholly or partly from his liability.

Administration and Returns.—The administration of the Act is vested in a Commissioner who is assisted by an Assistant Commissioner and a number of Deputy Commissioners. There is a Deputy Commissioner for each State, and also one for the Central Office. If a taxpayer's income is derived solely from one State his return is submitted to and assessed by the Deputy Commissioner for that State; if he has income from more than one State his return is lodged at the Central Office in Melbourne. Where the only income derived outside one State consists of dividends from companies, such dividends are ignored in determining the place of lodgment of the return, and the taxpayer is deemed to derive his income all from one State.

SCHEDULE SHOWING THE EFFECT OF AMENDMENTS OF THE INCOME TAX ASSESSMENT ACT AND INCOME TAX ACT IN THEIR RELATION TO ASSESSMENTS FOR EACH YEAR FROM THE COMMENCEMENT OF FEDERAL INCOME TAX TO THE PRESENT TIME.

Note.—The years shown at the head of the several columns are the years during which the income assessable would be derived.

	Year ended 30/6/1915.	Year ended 30/6/1916.	Year ended 30/6/1917	Year ended 30/6/1918.	Year ended 30/6/1919	Year ended 30/6/1920	Year ended 30/6/1921.
Amounts received by Lessees for transfer of Leases	Not taxable	Taxable as income	Same as 1916	Same as 1916	Same as 1916	Same as 1916	Does not apply to proceeds of sale of lease of mining property (other than coal) where Commissioner is satisfied the lease is sold— (1) by bona fide prospector; or (2) by a person, syndicate, or company not making a business of buying and selling mining properties, and who purchased the lease from a bona fide prospector
Sale of Goods by agents in Australia on account of Foreign Principals	Taxable income of principals deemed to be 5 per cent. upon sale price of goods	Repealed. Such principals assessable on actual income only if derived from sources within Australia	Same as 1916	Same as 1916	Same as 1916	Same as 1916	Same as 1916
Live Stock, Produce and other commodities exported from Australia	When exported before sale has been made the Australian market value for home consumption at time of export is taken in place of the actual sale price	Same as 1915.	Same as 1915	Repealed. See under heading "Place of derivation of Income" for rules now being applied	Same as 1918	Same as 1918	Same as 1918

	Year ended 30/6/1915.	Year ended 30/6/1916.	Year ended 30/6/1917	Year ended 30/6/1918.	Year ended 30/6/1919	Year ended 30/6/1920.	Year ended 30/6/1921.
Visiting Ships.	Agent liable to taxation on 5 per cent. of amount of outward freight and passage money	Same as 1915	Same as 1915	Taxable income increased to 10 per cent. on freight and passage money	Same as 1918	Same as 1918	Same as 1918
Income deemed to have been derived although not actually paid over if it is re-invested, accumulated, capitalised, or otherwise dealt with on a person's behalf				Inserted this year	Same as 1918	Same as 1918	Same as 1918
Re-insurance business with Foreign Companies	Where Fire Insurance Companies in Australia re-insure with Fire Insurance Companies outside Australia the income received by the ex-Australian Company is deemed to be income derived in Australia, and taxable to the Australian Company as agent	Amended to include Marine Companies	Do.	Repealed			

	Year ended 30/6/1915.	Year ended 30/6/1916.	Year ended 30/6/1917	Year ended 30/6/1918.	Year ended 30/6/1919	Year ended 30/6/1920.	Year ended 30/6/1921.
Mining Companies	Capital expended on plant and development (less distributed and undistributed income derived prior to 1/7/1914) is divisible by the estimated number of years remaining in the life of the mine, and quotient obtained is an allowable deduction	The date, 1/7/1914, is altered to the beginning of the year for which the tax is levied	Same as 1916	An alternative allowance at option of taxpayer of so much of income of year as is expended in that year for development or is appropriated for development and for new plant, but any amount appropriated and not used by the end of the succeeding year is to be included then as income	Same as 1918	Same as 1918	Same as 1918
Dividends and Interest paid by Company to absentees	Only taxable to absentee if he has an Australian agent from whom tax can be collected	Company assessable at 6d. in £. Where personal assessment is also made against absentee, rebate of 6d. in £ on dividend or interest so assessed is allowed	Same as 1916	Rate of Tax increased to 8d. in £	Same as 1918	Same as 1918	Same as 1918
Distributions by Companies to holders of Bearer Debentures and Stock				Company to pay tax on the total amount distributed as if it were the income of an individual	Do.	Do.	Do.
Foreign persons escaping tax through connection with residents							Provision made for Commissioner to assess tax on amount thought proper

	Year ended 30/6/1915.	Year ended 30/6/1916.	Year ended 30/6/1917	Year ended 30/6/1918.	Year ended 30/6/1919	Year ended 30/6/1920.	Year ended 30/6/1921.
Rebates from Co-operative Companies							Exemption from tax applies to rebates received by members based on their purchases from the Company where it usually sells only to its own members
Agricultural and Horticultural Societies			Exemption from tax provided	Same as 1917	Same as 1917	Same as 1917	Same as 1917
War Pensions			Exemption from tax provided	Same as 1917	Same as 1917	Same as 1917	Same as 1917
Deduction for Life Assurance & Fidelity Guarantee Premiums	All amounts up to £50 allowable	Allowance limited to amounts paid on provision effected in Australia	Same as 1916	Same as 1916	Same as 1916	Same as 1916	Same as 1916
Repairs to Property and machinery implements, utensils, rolling stock	Allowance is average amount for year of income and two years preceding	Same as 1915	Same as 1915	Actual amount paid in year instead of average allowed	Same as 1918	Same as 1918	Same as 1918
Deduction for quarters allowed to employees	Estimated annual value allowed	Actual rent paid allowed. If portion of own residence is occupied by employees proportion deductible from 5 per cent. on capital value returned as income	Same as 1916	Same as 1916	Same as 1916	Same as 1916	Same as 1916

	Year ended 30/6/1915.	Year ended 30/6/1916.	Year ended 30/6/1917	Year ended 30/6/1918.	Year ended 30/6/1919	Year ended 30/6/1920.	Year ended 30/6/1921.
Deduction for payments to superannuation, sustentation, widows or orphans' fund, or Friendly Society	All payments allowable up to £50	Deductions limited to funds and societies established in Australia	Same as 1916	Same as 1916	Same as 1916	Same as 1916	Same as 1916
Deduction on account of maintenance of children under 16 years of age	£13 allowed for each child	Allowance increased to £26	Same as 1916	Same as 1916	Same as 1916	Same as 1916	Allowance increased to £30
Sources of income from which deductions allowable	Rates & Taxes, and Repairs to rented properties deductible from Property income; all other deductions from Personal Exertion income	Additional deductions from Property income are:—(1) Interest paid on mortgage of land used for residence, (2) Interest on other money used to produce income from property, (3) Rent paid on property from which property income is derived, (4) Commission for collecting property income	Do.	Deductions: (1) Life Insurance and Fidelity Guarantee Premiums, (2) Payments to superannuation, sustentation, widows, or orphans fund, or Friendly Society, (3) Gifts as allowed, (4) Deduction for children, are deductible from whichever class of income is the greater. All other deductions are allowable from the class of income to which they relate	Same as 1918	Same as 1918	Same as 1918

	Year ended 30/6/1915.	Year ended 30/6/1916.	Year ended 30/6/1917	Year ended 30/6/1918.	Year ended 30/6/1919	Year ended 30/6/1920.	Year ended 30/6/1921.
Statutory Deduction	Resident Individual. (a) Personal Exertion. (1) If income under £500, deduction £156. (2) If income exceeds £500, deduction £156, less £3 for every £10 by which income exceeds £500. (b) Property Income. Deduction is £156 less £2 for every £5 by which the income exceeds £156. Where there is income from both sources, if total of above sums exceeds £156, each deduction is reduced by one-half of the excess	Resident individual, married or with a dependant. (a) Personal Exertion—£156 less £1 for every £4 by which income exceeds £156. (b) Property Income—£156 less £5 for every £11 by which income exceeds £156. Where there is income from both sources, the sum of the deductions as above is apportioned pro rata between income from each source. Resident without dependant, £100 less £1 for every £4 by which income exceeds £100.	Same as 1916.	Resident individual married or with dependants. £156 less £1 for every £3 by which income exceeds £156. Resident individual without dependants. £100 less £1 for every £5 by which income exceeds £100. The deduction is made in first place from income from property, where there is income from both personal exertion and property	Same as 1918	Same as 1918	Deduction to resident individuals without dependants altered to £104 less £1 for every £3 by which income exceeds £104
Bad Debts	Deduction allowed for debts proved to be bad and written off in year of tax, and incurred in that or the preceding year	Addition made that where provision has been made to cover Bad Debts the equivalent of amount which would have been written off may be allowed	Do.	Provision extended to cover all Bad Debts previously returned as income for Federal Income Tax. Provision for Bad Debts clause, added in 1916, omitted	Same as 1918	Same as 1918	Same as 1918

	Year ended 30/6/1915.	Year ended 30/6/1916.	Year ended 30/6/1917	Year ended 30/6/1918.	Year ended 30/6/1919	Year ended 30/6/1920.	Year ended 30/6/1921.
Deduction of amounts paid for leases	Sinking Fund allowable calculated on prescribed tables to recoup taxpayer the amount paid as premium for lease	Extended to cover payments made to a lessee for purchase of his lease	Same as 1916	In place of Sinking Fund, deduction now ascertained by dividing the sum paid by the number of years of the unexpired period of the lease at the date the amount was paid	Same as 1918	Same as 1918	Same as 1918
Improvements on leasehold made under covenant				The annual sum necessary to recoup expenditure made under covenant with the lessor by a lessee who has no tenant rights in the improvements is deductible. Deduction is ascertained by dividing the expenditure by the number of years of unexpired period of the lease at the date improvements effected	Do.	Do.	Do.
Gifts to Charitable Institutions	Gifts exceeding £20 each allowable	Same as 1915	Same as 1915	Maximum reduced to £5	Do.	Do.	Do.
Gifts to Patriotic Funds, connected with the War, and for Repatriation	Contributions not exceeding £5 to each Patriotic Fund allowable	Do.	Do.	Extended to include Gifts purchased and forthwith presented also gifts in cash or kind for Repatriation purposes. The £5 minimum is also eliminated	Do.	Do.	Do.

	Year ended 30/6/1915.	Year ended 30/6/1916.	Year ended 30/6/1917	Year ended 30/6/1918.	Year ended 30/6/1919	Year ended 30/6/1920.	Year ended 30/6/1921.
Payments by Husband to Wife or by Wife to Husband	Not allowed	Same as 1915	Same as 1915	Allowable if Commissioner is satisfied payments have been made bona fide and for services rendered	Same as 1918	Same as 1918	Same as 1918
Rebate of Tax where tax paid both in United Kingdom and Australia							Introduced this year. See special paragraph for details
Rates of Tax:	See under Heading "Rates of Tax."	All rates increased 25 per cent. Companies in respect of distributions of dividends and interest to absentees are charged at 6d. in £. Minimum tax of £1 provided in the case of single persons without dependants. Cash prizes in lotteries are taxable at rate of 10 per cent. on gross prize money	Same as 1916	Except as to companies, all rates increased a further 30 per cent.; i.e., 30 per cent. on 125 per cent. of the original rates, or 62.5 per cent. on the original rates. Company rate 2/6 in the £. Company rate on distributions to absentees 8d. in £	Same as 1918	Except as to Companies and cash prizes in lotteries, all rates increased a further 5 per cent., i.e., 5 per cent. on 162.5 per cent. on the original rates, or 170.625 per cent. on the original rates. Company rates remain at 2/8 and 8d. respectively. The rate on cash prizes in lotteries is 14 per cent. on the gross prize money	Same as 1920 except that the minimum tax of £1 on single persons is repealed. See also next heading re rates applicable to primary producers.

	Year ended 30/6/1915.	Year ended 30/6/1916.	Year ended 30/6/1917	Year ended 30/6/1918.	Year ended 30/6/1919	Year ended 30/6/1920.	Year ended 30/6/1921.
Rates on Tax on income from Primary Production.							Average of five years' income adopted for arriving at rate of tax. See special paragraph under "Rates of Tax" on Income from Primary Production
Partnerships.	Partnerships taxed on full income with deduction from total tax of so much thereof as corresponds with the proportion that the part of the income distributed to partners bears to whole partnership income. This deduction applies only to partnerships formed prior to 1/7/1914	Same as 1915	Same as 1915	The whole of partnership income is assessed to the individual partners according to their respective interests. Where, in a partnership formed after 13/9/1915, any partner is not a taxpayer and the Commissioner is not satisfied that that partner is in receipt and control of his share of the income, the partnership is assessable on behalf of that partner at the rate applicable to the total net income of the partnership	Same as 1918	Same as 1918	Same as 1918

	Year ended 30/6/1915	Year ended 30/6/1916.	Year ended 30/6/1917	Year ended 30/6/1918	Year ended 30/6/1919	Year ended 30/6/1920.	Year ended 30/6/1921.
Trustees	Trustees are assessable on total trust income with deduction of so much thereof as corresponds with the proportion that the part of the income distributed to beneficiaries bears to whole trust income If income held for a minor or for reasonable expenditure of the Trust Estate it is deemed to be distributed	Proviso added that if income is held by Trustee for minor the Trustee shall pay tax on that income as if the beneficiary had received it as his only income	Same as 1916	A Trustee is not liable to pay tax as Trustee except upon income due to a beneficiary who is under a legal disability or on income to which no other person is presently entitled and in actual receipt thereof and liable as a taxpayer in respect thereof. In all other cases the beneficiaries are assessable on their proportionate part of the Trust income	Same as 1918	Same as 1918	Same as 1918
Company agent for debenture-holders	Company deemed to be agent for debenture-holders	Repealed					
Arrangements may be made with States for collection by the Commonwealth of State taxes				Inserted this year	Do.	Do.	Do.
Board of Appeal							Board created to hear appeal on questions of fact only

	Year ended 30/6/1915.	Year ended 30/6/1916.	Year ended 30/6/1917	Year ended 30/6/1918	Year 30/6/1919 ended	Year ended 30/6/1920.	Year ended 30/6/1921.
Disclosure of information to other authorities	Information may be disclosed to State Income Tax Commissioners who have authority to reciprocate.	Same as 1915	Same as 1915	Power of disclosure extended to Commissioner of Pensions for pension purposes. Information not to be produced in Courts unless for Income Tax purposes.	Same as 1918	Same as 1918	Same as 1918

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Memoranda.